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ABSTRACT

The handbook accents the nature of transportation and related domestic and international business activities. Its objective is to provide basic information for the newcomer to the field. Chapters 2 and 3 describe assistance available from public and private agencies, as well as regulatory requirements for foreign traders and a resume of the primary functions and responsibilities of those regulatory bodies encountered by foreign traders. Chapters 4, 5, and 6 incorporate essential guidelines regarding methods of payment, risk coverage and documentation for international trade transactions. Encompassed in chapters 7, 8, and 9 are protective requirements, identification, and warehousing of commodities. Special attention has been given to containerization and its relationship to transportation. Chapters 10, 11, and 12 discuss transportation modes, ports and airports in regard to services and connected functions, and the services of freight forwarders and customshouse brokers. One third of the document consists of appendixes. Include are: (1) Revised American Foreign Trade Definitions-1941, (2) Uniform Customs and Practice for Documentary Credits 1962 Revision--International Chamber of Commerce Brochure No. 222, and (3) Selected Bibliography. (Author/MW)

Transportation Facilitation Education Program

Transport and Logistics Research Center
College of Business Administration
University of Oregon ■ Eugene, Oregon

A Handbook for Transportation and Distribution

March, 1971

Prepared for
DEPARTMENT OF TRANSPORTATION
Office of Facilitation
Washington, D.C. 20590

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TRANSPORTATION FACILITATION EDUCATION PROGRAM

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Part Three

Prepared for:

Office of Facilitation
United States Department of Transportation
Washington, D.C.

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PART THREE

ACCENT ON TRANSPORTATION

A Handbook for Transportation and Distribution

I. INTRODUCTION

This handbook accents the nature of transportation and related domestic and international business activities. Its objective is to provide basic information for the "newcomer" to the field. It contains such topics as mechanics of exporting and importing; role of physical distribution; services and assistance provided by various United States government agencies; regulatory bodies and regulation; financing; insurance, documentation; packing; marking and packaging; warehousing and storage; containerization; carriers; ports and airports; and services of international specialists. The handbook is intended for use completely independent of the educational program discussed in Part One, but it could very easily be used in conjunction with that program.

A. Scope

1. Purpose

It is intended that this handbook serve principally as a reference guide for carriers, facilitating middlemen, exporters and importers, business firms, agencies, and other members of the transportation community.

Very informative and helpful handbooks on international trade, published by public and private agencies, are available. However, ACCENT ON TRANSPORTATION provides a much-needed emphasis on certain aspects of transportation, coupled with selective high-lighting of related physical distribution and facilitation areas, not readily available elsewhere.

2. Coverage

Chapters II and III describe assistance available from public and private agencies, as well as regulatory requirements for foreign traders. Also included is a resume of the primary functions and responsibilities of those regulatory bodies which exporters or importers may encounter in their dealings.

Chapters IV, V, and VI incorporate essential explanations and guidelines in regard to methods of payment, risk coverage and documentation for international trade transactions.

Encompassed in Chapters VII, VIII, and IX are protective requirements, identification, and warehousing of commodities. Due to significant technological breakthrough associated with the "container explosion," special attention has been given to containerization and its relationship to transportation.

Chapters X, XI, and XII discuss transportation modes and ports and airports in regard to services and connected functions. Finally, the services of freight forwarders and customshouse brokers are described, in order to focus attention on the key contributions of these specialists.

The success of international trade transactions hinges on communication that proves mutually advantageous to the trading parties. Appendix "A" is included to help bridge any communications gaps concerning the understanding of foreign trade terminology. As a corollary, Appendix "B" is included to avoid misunderstandings regarding international practices in establishing and maintaining financial credit.

The literature dealing with the preceding subjects is quite extensive; hence, it is impractical to include all contributions to the field in a concise bibliography. Consequently, in Appendix "C" references have been limited to those deemed most essential and meaningful to users.

B. General Comments

1. The International Trade Concept

There are various political, social, and economic reasons for countries to engage in international trade. All of these are designed to further the interests of the trading countries. While political and social reasons for trade are both important and interesting, the economic or business reasons for international trade are most pertinent to the present discussion in which related economic factors are treated.

a. Uniqueness of product

Many commodities demanded in world markets cannot be produced in all areas of the world. By virtue of climatic situation, mineral deposits, or other similar factors, some areas are favored with quantities of certain goods which more than satisfy internal demand. Surplus goods may be exported, with payments received therefor being used to import other commodities.

b. Absolute advantage

By application of less resources or factors of production, or by possessing special skill levels or other production advantages, some countries are able to produce some kinds of goods cheaper than can other countries. This condition is known as absolute advantage. Under this situation, a country will be in a position to export such goods in exchange for products over which other countries have a similar absolute advantage.

c. Comparative advantage

Businessmen and economists have proven that there are numerous cases where it pays a country to import goods that may be less costly to produce by that country, provided that the importing country can produce other commodities that are to be exported relatively cheaper. By following a policy of producing those goods in which the greatest relative efficiency lies, all countries stand to benefit from international trade. Therefore, countries should not limit their international trade to conditions of unique product or absolute economic advantage, but rather should evaluate their relative position by examining potential international trade from a comparative point of view as well.

Evaluation of costs in determining comparative advantage must include all inputs necessary to ascertain total landed costs. These encompass production-related costs, as well as transportation, insurance, and similar charges required to accomplish the distribution of commodities.

d. Limitations to international trade

Since countries rarely have identical cost functions in the production o[illegible], there is almost always a potential for trade.

Unfortunately, political, institutional, and other factors too often interfere with the demonstrated economic advantages that would derive from "free world trade." These institutional-political conditions include:

(1) Embargo

Embargoes are prohibitions against exports or imports to or from certain areas or countries.

(2) Quotas

The setting of quotas designates a deliberate limitation in the quantities of certain goods that may be imported.

(3) Protective tariffs

Tariffs are taxes or fees levied by governments on imported goods. Tariffs generally constitute the most important limitations on the otherwise free flow of international trade. While protective tariffs do severely limit the amount of trade that otherwise would normally be generated between countries, it is unrealistic to condemn tariffs outright. Sheltering an infant industry, which a country may be attempting to protect until growth difficulties are overcome, and similar factors, sometimes may justify these tariffs.

Export subsidies, granted by exporting countries as a means of promoting the export of certain commodities, are the converse of protective tariffs, and cause changes in the normal workings of the international trade system and resource allocation.

2. Mechanics of Exporting and Importing

Export and import involve sales and purchase transactions that cross international boundaries. These transactions incur financial (foreign exchange) obligations, which parallel, but flow in the opposite direction of, the export and import movements.

Foreign trade is a two-way street. Without the opportunity of earning the required foreign exchange (currencies) by goods or services, imports cannot normally be financed by countries which do not balance them with export revenues.

The actual or potential foreign trader must have access knowledge of the mechanics of exporting and importing. These mechanics are described in the various sections of this handbook by identification of functions, services, assistance available from various agencies (e.g., carriers, banks, underwriters, governments) etc.

3. Role of Physical Distribution

The shift from a post World War II sellers' market to the buyers' market of the 1950's brought increased emphasis to the marketing concept as the focus of corporate activity. In the buyers' market, firms could no longer remain simply production-oriented and survive in a competitive environment where success depends upon ascertaining customer needs and tailoring corporate policy to meet these needs at a profit. This new corporate posture has promoted the role of physical distribution management. Efficient integrated management of the physical flow of goods has been recognized as a new avenue to profit through cost reductions and improved customer services.

The physical distribution function is composed of a number of interrelated subfunctions. Each of these subfunctions is often managed separately. Efficient distribution depends upon coordinated planning and control of the entire system, however. The major subfunctions making up the physical distribution system are

a. Transportation and traffic management

Transportation and traffic management includes not only the selection of modes and carriers and the routing of goods, but also participation in rate negotiation, management of risk and claims, documentation, expediting and tracing, and such miscellaneous activities as diversion and reconsignment, use of transit privileges, and control of demurrage and detention.

b. Inventory management

Inventory management has developed into a precise science of balancing carrying and obsolescence costs against high restocking and production costs and the loss of goodwill precipitated by stock-outs.

c. Warehousing

Warehousing concerns itself not only with operations and selection between private and public warehousing, but also with the process of making location decisions regarding distribution points.

d. Packaging

Packaging is an often neglected area which is crucially related to many of a firm's logistical decisions.

e. Communication

Communication and the management of information flows are at the root of proper coordination of the various subfunctions within physical distribution, and of the physical distribution function as a whole within the corporate structure.

f. Total cost concept

The total cost concept of physical distribution has served to focus company efforts upon reducing overall systems costs rather than simply minimizing the cost of any given subfunction. Suboptimization has, in the past, led to gross inefficiencies in the distribution system. However, there is now an encouraging trend toward a real and effective implementation of the systems viewpoint in managing physical distribution.

II. SERVICES AND ASSISTANCE PROVIDED BY PUBLIC AND PRIVATE AGENCIES

Both experienced and beginning foreign traders can obtain a wide variety of helpful services and assistance programs from governmental and non-governmental agencies. Some of these agencies, and a partial listing of the services provided, are listed below. More details on these services, as well as information on newly initiated programs, can be obtained by contacting the various agencies directly.

A. United States Government Agencies

1. Department of Agriculture

The Department of Agriculture is concerned, both directly and indirectly, with United States foreign trade.

a. The Agricultural Research Service

The Agricultural Research Service seeks to improve agricultural products going to foreign as well as domestic markets. It makes available to exporters and others results of marketing research programs designed to improve handling, storage, processing, transportation, and distribution of agricultural products. Included in its programs are dissemination of market news; standardization, inspection, grading, and classifying of agricultural products; and surplus sales to domestic and foreign buyers.

b. Foreign Agricultural Service

The Foreign Agricultural Service develops foreign markets for products of United States farmers. This service includes continual appraisal of marketing opportunities overseas and of competition and barriers to trade. Efforts aimed at improving international trade conditions for agricultural products, such as the export sale of farm surpluses for foreign currencies, are also included. This service is an excellent source of up-to-date information on world agricultural commodity and trade policy.

c. Commodity Credit Corporation

The Commodity Credit Corporation (CCC) is responsible for the program of price supports for farm products. The CCC may purchase commodities abroad to meet foreign and domestic needs. It may procure farm products for relief programs abroad, and it may export, at competitive prices, any commodity that is not in short supply. The CCC also administers United States participation in the International Wheat Agreement and similar agreements.

2. Department of Commerce

Expanding of exports is the direct concern of the

Domestic and International Business operating unit of the Department of Commerce, whose mission is to stimulate, foster, and encourage business both at home and abroad. The expansion of exports is the specific responsibility of the Assistant Secretary for Domestic and International Business (DIB), who in turn supervises the following agencies: Bureau of International Commerce (BIC); Business and Defense Services Administration (BDSA); Office of Foreign Commercial Services (OFCS); Office of Field Services (OFS), with 42 Field Offices in major cities. The BIC has the primary responsibility for assisting exporters and promoting exports. A brief explanation of the responsibilities of each of the DIB offices helps to show the range of services available.

a. <u>The Export Business Relations Division</u>

This division is the initial contact point for questions on how to get into the export field; export trade problems; export financing; export markets; investments, and related subjects. This division is also the point of contact for firms wishing to use the International Business Assistance Service (IBAS) for help in solving government-related problems in connection with specific transactions. Established in 1969, IBAS was created to help on a case-by-case basis and, thereby, to speed solution of problems faced by

United States companies in international trade. Often an international business transaction may require dealings with several agencies of government. The role of IBAS is to coordinate and expedite contacts between businessmen and the agencies concerned.

One of the major programs carried on by IBAS is the Project Facilitation Program, the aim of which is to bring major foreign projects to the attention of United States firms in the early planning stages and, if necessary, to assist these firms in putting together "package" deals which utilize the capabilities and resources of several companies, one or more banks, and government agencies such as the Export-Import Bank and the Agency for International Development.

b. Bureau of International Commerce

(1) Promotion

The Bureau of International Commerce (BIC) promotes U.S. trade and investment overseas on a geographical basis. Specifically, BIC conducts promotional activities in overseas markets; provides business with information and advisory services about foreign trade opportunities; helps formulate U.S. trade and commercial policy; and administers the export control program. BIC can provide United States businessmen with information on marketing, investment, and economic conditions in more than 100 countries and regions, and can aid in finding new business abroad.

BIC presently operates eight trade centers abroad (London, Bangkok, Frankfurt, Tokyo, Milan, Stockholm, Paris, Sydney) where businesses may display goods. In 1971 a new trade center will be opened in Mexico City. BIC also presents exhibitions of United States goods at international trade fairs and conducts trade mission programs to other countries. It has also organized mobile trade fairs and sample product displays in United States commercial offices throughout the world. It operates permanent sample Display Centers in Beirut, Nairobi, and Bangkok, where products may be displayed for 30 days.

(2) Other services

Other business services provided by BIC include commercial intelligence to aid firms in locating customers or representatives abroad; help in obtaining foreign distributors or agents; help in conjunction with U.S. Foreign Service in settling trade disputes; and the rendering of assistance in stimulating exports via an automated American International Traders Index.

(3) Joint Export Association Plan

The Joint Export Association Plan, initiated in 1968, opens to U.S. firms the possibility of up to 50 percent government financing of such costs as marketing research, advertising, foreign exhibitions, sales offices and warehousing. This program is aimed primarily at aiding smaller firms. It is limited to certain groups of companies joined together to sell abroad.

The Global Marketing Program is a new BIC program initiated in late 1970. Its key features are: comprehensive global market research to pinpoint the best foreign markets for selected industries by specific product; a nationwide global marketing program; counseling services on foreign markets; and the development of a global marketing program for each firm.

c. Business & Defense Services Administration (BDSA)

This agency, through its 26 commodity and industry divisions, advises United States business of international sales potential of specific commodities.

BDSA commodity specialists hold frequent discussions with trade association representatives, manufacturers, and other businessmen, through which they build up a large pool of information on subjects ranging from raw materials to finished products. Although concerned primarily with domestic business, BDSA helps to open markets for United States products around the world. The agency is continuously active in promoting the adoption of commodity standards and specifications that will permit American business to compete in world markets. BDSA gathers information about commodities in world trade, and collects, evaluates, and publicizes information about overseas trading opportunities.

d. Office of Foreign Commercial Services

The Office of Foreign Commercial Services is the agency of the Department of Commerce that obtains much of the information about world trade from offices in the United States Foreign Service. It, in turn, makes such information available to businessmen. It also engages in direct promotion of export sales and negotiates and makes representations on behalf of United States business interests.

e. **Department of Commerce Field Offices**

Each of the 42 Department of Commerce Field Offices is a small Department of Commerce in its own area. At each Field Office, specialists help to solve business problems, furnish information and publications about the Department's program and services, and provide counsel on both foreign and domestic business operations. For example, in-house export marketing workshops are offered periodically. Some of the specific kinds of information available from a Field Office are: how to get started in a world trade; marketing and economic reports; foreign business regulations; international trade statistics; information on foreign transportation, insurance, credit sources, patents, trademarks, and copyrights; directories of foreign advertising agencies, market research organizations, and international trade development organizations; publications on every phase of international commerce; and trade and investment opportunities abroad. Local Field Offices also work with Regional Export Expansion Councils, trade associations, chambers of commerce, local offices of the Small Business Administration, and other groups interested in doing business abroad.

f. United States Maritime Administration

The Maritime Administration is also under the Department of Commerce. Its general mandate is the promotion of a United States merchant fleet sufficient to carry our domestic water-borne commerce and a substantial portion of our water-borne export and import trade. In carrying out this mandate it provides many services and develops techniques useful to U.S. traders.

3. Department of State

The Foreign Service of the United States has always been an important source of information on foreign countries. In addition, in carrying out the foreign policy of the United States, the Foreign Service is engaged in a number of economic activities which are helpful to United States businessmen doing business abroad. This help is mainly in two areas, trade promotion and trade protection.

a. Trade promotion

(1) Trade opportunity surveillance

This includes keeping constantly alert for and reporting on concrete foreign trade opportunities for products, technology and services.

Studying and reporting on foreign products, which may be competitive to United States products both domestically and abroad, form part of this activity.

(2) Demand creation

This function seeks to generate demands for United States products in overseas markets.

(3) Overseas business analysis

This activity encompasses investigating and reporting on conditions and factors affecting United States business abroad, and includes providing World Trade Directory Reports concerning the general standing and distributing capacities of foreign firms. Trade lists of overseas firms are prepared and submitted upon request.

(4) Business contact facilitation

Proposed visits of foreign businessmen to the United States are facilitated and reported in advance so that interested United States firms may arrange to meet them, if desired. Assistance in arranging business contacts for

United States businessmen traveling abroad is also provided. Trade inquiries are also answered.

(5) Arrangement of trade conferences

Trade conference work is prepared, and upon instructions performed for, United States agencies and for exporters, importers, bankers, farmers, foreign trade organizations and others.

b. Trade protection

(1) Information bank

Information on national and local laws and regulations which affect foreign trade is furnished.

(2) Opportunity equalization

By ascertaining that specifications for work abroad are drawn to give United States bidders equal opportunity to compete for business, influence is exerted to prevent discrimination against United States businessmen.

(3) Resolution of trade problems

Adjustment and settlement of trade problems are attempted.

(4) Elimination of trade barriers

Discriminatory barriers against United States goods are observed, reported on and removed when possible.

(5) Guarding of trade and ownership rights

Infringements on rights of United States businessmen in such areas as commerce and navigation, patents and trademarks, copyrights, and the like are guarded against.

4. United States Department of Transportation (DOT)

The Office of Facilitation of the Department of Transportation is active in streamlining and simplifying export documentation. In addition, this office endeavors to assist business and transportation firms interested in certain aspects of international and domestic trade by dissemination of information through seminars, workshops, and conferences.

5. Export-Import Bank

The Export-Import Bank (Eximbank) is an independent, wholly owned agency of the United States Government. Its purpose is to facilitate and finance foreign trade. In addition to providing export credit insurance and guarantees to commercial banks, Eximbank also directly promotes exports in a number of ways. Among these are long-term loans directly to public and private borrowers abroad for the purchase of United States products and services; repayment guarantees to American or foreign lenders of funds for the same purposes; lending credits to entities abroad which, through sub-loans to ultimate borrowers, will assist smaller purchases of American products; and repayment guarantees to exporters to assist in the use or leasing abroad of United States services or products.

Direct loans normally cover not more than 50 percent of the financed portion of the United States procurement costs. The borrower may find the other portion of his financing from private American or foreign sources with the assistance, if needed, of a repayment guarantee by Eximbank. Repayment of the private portion of the financing may be completed before repayment of the Eximbank portion begins. Where necessary, to compete with non-American sources of procurement that offer financing for the local costs as well as the foreign exchange costs of the project, Eximbank may offer repayment guarantees to assist United States suppliers in obtaining off-shore financing for at least a portion of the local costs.

6. Small Business Administration

The functions of the Small Business Administration (SBA), an independent agency of the United States Government, are to aid and assist small business firms in the United States. As a source of funds, the SBA finances small business only when financing cannot be secured through regular financial channels. An important part of SBA assistance is the counseling of the small businessman by its staff experts. If a firm meets requirements, the SBA will participate in loans or make direct loans for business construction, conversion or expansion, for purchase of machinery, equipment, facilities, supplies or materials, or for working capital. SBA also provides disaster loans and a broad range of management assistance.

The SBA seeks to make it easier for small businesses to enter foreign trade. Prospective small exporters are counseled on export opportunities and problems. SBA keeps a list of small manufacturers who have expressed interest in developing export markets and refers trade opportunities to them. Small businessmen are encouraged to exhibit their products at trade fairs and to take advantage of trade missions. The SBA also co-sponsors foreign trade opportunity conferences for small businessmen to acquaint them with foreign trade opportunities, and cooperates with colleges and universities in offering short courses on exporting techniques.

In its foreign trade program, the SBA works closely with the Department of Commerce, the Department of State, the Export-Import Bank, and other Government agencies.

B. Supranational Agencies

National governments work in concert regionally or internationally to promote international distribution through membership in more or less permanent organizations which have been created by the national governments themselves, or by becoming parties or signatories to agreements or conventions.

Such arrangements have helped to create an international environment favorable to business transactions. For the most part, relationships established with individual business firms have been indirect, since direct assistance is made available generally only to national governments. Direct aid, however, is provided individual business firms through statistical reporting and publishing activities. In many instances such data are not available from other sources.

1. United Nations

a. Economic and Social Council (ECOSOC)

Within this organization the Economic and Social Council (ECOSOC) is the prime mover in the economic and social areas which affect international trade. Eight committees in ECOSOC perform functions and provide services of special interest to the international businessman. These are: The Statistical Commission; the Commission on Housing, Building, and Planning; the Commission for Development and Planning; the Advisory Committee on the Application of Science and Technology in Development; and four regional economic commissions (for Africa, Asia and the Far East, Europe, and Latin America).

b. United Nations Committee for Trade and Development (UNCTAD)

The arm of the United Nations concerned particularly with exports of developing nations is the United Nations Committee for Trade and Development (UNCTAD), which held conferences in 1964 and 1968 to discuss this very sensitive area. The major activities of UNCTAD include research and support in connection with negotiation of commodity agreements, technical elaboration of new trade schemes, such as a new import preference system, and various promotional activities designed to assist developing countries in the areas of trade and capital flows. UNCTAD has no direct official relationships with individual business firms.

c. United Nations Industrial Development Organization (UNIDO)

The United Nations Industrial Development Organization (UNIDO) is also concerned with development. Its task is to promote the industrialization of developing countries by encouraging the mobilization of national and international resources. Emphasis is placed on manufacturing. Unlike UNCTAD, UNIDO works directly with business firms, generally on an industry basis. The major activities of UNIDO fall into three categories: operational, research, and coordination.

2. International Monetary Fund

Among supranational organizations, the International Monetary Fund (IMF) is somewhat unique in that it combines three major functions: regulatory, financial, and consultative. In its regulatory aspect, the IMF administers a code of good behavior in the international payments sphere. As a financial institution, it loans funds to national monetary authorities to meet balance of payments deficits. Finally, as a consultant, it provides a center for international cooperation and a source of technical assistance to its member governments.

The objectives of the IMF are to promote international monetary cooperation; facilitate the expansion and stable growth of world trade; promote and maintain exchange stability; assist in multilateral payments between member countries to eliminate foreign exchange restrictions or other practices that hinder international trade; provide an orderly means of adjusting or adapting to over- or undervalued exchange rates; provide short-term loans to member countries experiencing balance of payments difficulties; and promote convertibility of national currencies.

By carrying out policies to implement these objectives, the IMF assists the private sector of international business by improving conditions in which trade will occur.

3. World Bank Group

The World Bank Group of financial assistance institutions consists of the World Bank, the International Development Association, and the International Finance Corporation. Of these, only the latter is designed to provide direct assistance to private business. The other two, however, aid private business in indirect ways. In general, the Group is oriented toward development lending, with the major share of its funds directed to less developed countries.

a. World Bank

The general purpose of the World Bank is to finance projects that help to build foundations of economic growth in less-developed countries. This is accomplished by granting loans to governments of member nations, including territories and political subdivisions, political or private entities, and public international or regional organizations. More specifically, the objective is to provide long-term financing for investments in and operations of domestic developments such as highways, power plants, hospitals, agriculture, etc., which are usually beyond the financing capability of the private sector in developing nations. While the World Bank does not finance private business directly, through its actions it helps provide conditions for domestic expansion, growth and stability which, in turn, provide an atmosphere conducive to increased international trade.

b. International Development Association

This organization in the World Bank Group is similar in operation to the World Bank itself, except that its loans are made at very low, or no, interest rates, and for periods as long as 50 years.

c. International Finance Corporation (IFC)

The International Finance Corporation (IFC) attempts to further economic development of private enterprise in member countries through financing only private enterprise contributing to economic development. Its purpose is accomplished by assisting in financing, establishing, and improving private business operations; seeking to obtain domestic and foreign private capital and experienced management; seeking to stimulate conditions conducive to private capital investment and more private participation in the growth of less developed countries; and undertaking financing in private risk ventures where other private financing is not available.

The IFC benefits private international business by seeking to develop private capital markets and financial institutions, and otherwise aids by offering risk capital, or underwriting security issues. Since it is directly aimed at the furtherance of private enterprise, it is of direct importance to private international businessmen.

4. General Agreement on Tariffs and Trade (GATT)

This agreement is perhaps the most important of the many agreements affecting international trade. GATT is a multinational treaty among more than 70 countries which are concerned with reducing tariffs and other barriers to trade, and with eliminating discrimination among goods. Although technically a contractual agreement, GATT is unlike other agreements in that it is administered by a permanent secretariat under a Director-General. Moreover, in 1964 there was established within the secretariat the International Trade Centre (ITC), whose purpose is to assist less-developed countries in expanding exports.

In attempting to fulfill the basic principles of the agreement, the GATT organization provides the legal and institutional framework for multilateral tariff reduction negotiations; ensures implementation of negotiated settlements and compliance with legal commitments under GATT; provides formal machinery for consultation and, if needed, redress if damage to a country's trade occurs because of another country's non-compliance with GATT provisions; fosters commercial policies and aids in developing mechanisms and techniques to increase the export earnings of developing countries; trains developing country officials in commercial policy and export promotion; and publishes world-wide trade information.

C. Subnational Government Agencies

1. State Governments

While state governments desire to assist resident businessmen in increasing their international business, most assistance programs are relatively new. Since these programs vary among individual states and seem to be everchanging as state governments seek to define precisely the role they should be playing, it is meaningless to list the various services provided. There is no uniformity among the various states, nor do all states provide assistance. In the aggregate, the assistance available from state governments is in many respects similar to that provided by the federal government.

2. Local or Municipal Governments

The international business promotional activities of city governments generally are minor. Direct foreign investment by foreign companies has received some attention at the local level. The objective here is local economic development. For a United States firm to establish a representative, an office, or a plant in a foreign country, local government officials can be of considerable help in making decisions, working with the national government in arranging details and concessions, and generally facilitating the operation. For example, the city of Dusseldorf, Germany, has an office of Economic Promotion, which has helped attract hundreds of subsidiaries of non-German industrial and trading companies by providing assistance similar to that mentioned above. Other services provided by city governments are limited, although some cities, for example, Berlin, Germany, have agencies that are very active in such things as advertising, trade fairs, establishing trade contracts, and providing international marketing consulting and information services.

3. Port Authorities

For cities that are points of entry or exit, the most active international business promotional activity and assistance is usually carried out by port authorities. Such authorities have been quite active in trying to develop greater import and export traffic through their ports. They are most helpful and encouraging to international businessmen wanting to use port facilities. Some port authorities employ representatives who may go abroad, or visit exporters and importers in the United States, in order to develop business for the port. These "trade developers" call on anyone who might have something to do with routing of shipments, such as manufacturers, merchants, export houses, and shipping lines. They set up studies for potential port customers that provide useful information on marketing, handling, packaging and routing. While this trade development work is heavily oriented towards the distribution phase, information on all aspects of international business is often made available.

D. Nongovernmental Assistance

Many types of private organizations promote favorable general circumstances and conditions under which international distribution may be effectively carried on. The dissemination of information on government policies relating to international marketing (e.g., information on tariffs or trademark regulations) is of particular interest. Some of these organizations perform personal services for their members or clients.

Finally, there is a group of organizations that give direct service to individual companies who may or may not be clients or customers. Included in this latter group are business firms dealing in services (e.g., banks and carriers). Their major function is to facilitate international transactions and to offer certain services without obligation.

1. Chambers of Commerce

Various chambers of commerce attempt to promote a climate conducive to the effective conduct of international business activities. There are basically three kinds of chambers of interest to international traders: the International Chamber of Commerce, chambers of commerce that are strictly national or local in character, and chambers made up of business firms of two countries--the so called "joint venture" chambers between firms doing business in both countries.

a. International Chamber of Commerce (ICC)

The International Chamber of Commerce is made up of more than 40 National Committees. Members of each National Committee are drawn from the business community and the nation's trade associations. These committees study matters related to international marketing, distribution and commercial policy, and present their country's viewpoint at meetings of the International Chamber. Policies adopted by the ICC, then, represent its efforts to influence national government policies, supranational agencies such as the United Nations or the International Monetary Fund, and world opinion on matters important to the development of international trade.

The ICC is also interested in encouraging businessmen to carry out, on a voluntary basis, practices and standards developed by businessmen themselves, which facilitate international business operations. For example, the ICC has developed a code of trade terms (INCOTERMS) that define the responsibilities of buyers and sellers in international transactions.

b. <u>Local chambers of commerce</u>

Throughout the world there are many local chambers of commerce, many of which are quite active in promoting and assisting in international business activities in their communities. They provide various types of services and information to members engaged in international trade. Some have international business departments which are well organized and staffed to serve the community. Some are active in encouraging direct private investment in the community by foreign companies. The services typically available from local chambers include providing bulletins or newsletters on international trade subjects to local businessmen; sponsoring seminars and conferences on international business subjects; maintaining files on trade leads; circulating inquiries from abroad; and direct assistance in technical problems.

American Chambers of Commerce Abroad

The American Chambers of Commerce Abroad are voluntary associations of business firms and individuals from one country, doing business in another country, along with firms and individuals from the other country. The broad purposes of such organizations are to develop trade, investment and amicable relations between the two countries, the promotion and protection of each country's interests in the other country, the collection and dissemination of international business-related information, and various other specific services.

2. Trade Associations

Some of the many trade or industry associations, such as the National Foreign Trade Council, Inc., the American Importer Association, Inc., The National Association of Manufacturers, and other regional and local international trade associations, are active in promoting and providing services related to international business. Trade associations usually are concerned with such problems as foreign and domestic government regulations concerning international trade, credit information and collections, terms of sale, and the handling of trade disputes. They may also publish helpful international trade statistics. Of particular help are the regular newsletters of some of these trade associations, which keep readers abreast of current developments in foreign trade matters.

3. Private Business Firms

There are many private, profit-oriented business firms involved in providing assistance in, and facilitating, international trade. These may be transportation carriers, advertising agencies, credit agencies, insurance firms, freight forwarders, and banking institutions. Some of the services are provided on a direct fee basis. Others, because they tend to increase international trade generally and thus indirectly help the firms providing the service, are available at no charge.

Among the services performed by some airline companies are organizing trade missions, providing foreign market information, aiding in technical business matters, publishing helpful material, and participating in foreign trade seminars and conferences. Steamship lines may offer similar assistance. Banking firms not only provide financial services in the area of international trade, but often will also offer such assistance as credit reports on foreign businesses and buyers, general foreign market information, aid in locating foreign representatives, and specific advice regarding a particular customer's own export or import business.

III. UNITED STATES REGULATORY BODIES AND REGULATIONS

A. Regulatory Bodies of the Federal Government

The regulatory bodies discussed here are in essence independent agencies created by Acts of Congress and administered by civilian officials appointed for specific periods of time. Although these agencies are regulatory in nature, their decisions are subject to various safeguards--e.g., requirements for public hearings on major decisions and appeal of decisions to the Federal court system.

The scope of authority of these agencies is generally interstate, but may apply to intrastate commerce as well if intrastate traffic, transportation, or trade rules interfere with interstate commerce or safety. United States regulatory agencies have counterpart state regulatory bodies concerned with intrastate application of transportation, trade, and safety rules peculiar to their particular states. In conflicts between federal and state agencies, federal regulation will normally govern.

The federal agencies are charged with maintaining viable competitive United States transportation and commerce systems. This is done by promoting healthy price competition and by preventing destructive competitive practices, monopolies, and unjustifiable price and service discrimination. Regulatory powers of these agencies are extensive, e.g., their creating statutes override application of anti-trust acts when this is found to be in the public interest.

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1. Interstate Commerce Commission (ICC)

The ICC regulates surface transportation carriers, i.e., railroads, motor carriers, domestic waterway operators, freight forwarders and oil pipelines in interstate and foreign commerce, by determining eligibility for operating authority and enforcing rate and service regulations appropriate to sound, competitive transportation in interstate and foreign commerce of the United States.

Examples of ways in which ICC jurisdiction affects international trade are levels of transportation rates for export-import commodities (e.g., rail rates to and from ports are normally lower on export/import shipments, as compared with domestic rates), differentials in surface transportation rates based on variances in rates applicable to the different U.S. ports, and levels of rates on domestic surface "link-up" and interchange transportation (i.e., considering total domestic-export/import shipping charges).

2. Civil Aeronautics Board (CAB)

The CAB is patterned after the ICC, but possesses less comprehensive responsibilities. CAB activities are confined to air transportation and include approval of operating authority, routes, rates, and services of domestic and international U.S. air carrier operations, as well as the common carrier operations of foreign air carriers to and from the United States. The CAB is also charged with the promotion and development of civil aviation in the United States.

CAB's impact on international trade extends into such areas as licensing of international air routes operated by United States and foreign air carriers (subject, however, to presidential approval), authorizing operation of foreign civil aircraft in the United States, participating in negotiations of air transport agreements with foreign governments, and overseeing domestic air link-up and interchange with international air carriers.

3. Federal Maritime Commission (FMC)

The FMC is charged with regulating the rates and services of ocean carriers and monitoring commercial maritime practices. The Commission's responsibilities affecting international trade, which are designed to prevent unfair and discriminatory practices, include review and approval of "conference agreements" among shipping companies, approval of dual rates and other contract rates, and regulation of shipping rates between the continental United States and its territories and possessions.

4. Federal Trade Commission (FTC)

The FTC was established in the early 1900's to control the growth of monopoly and preserve competition. FTC's duties generally encompass prevention of unfair methods of competition and vicious competitive practices, improper marketing practices, and anti-trust violations.

The impact of the FTC on international trade extends to administration of the Webb-Pomerene Act, which permits associations to engage in export trade without incurring penalties of anti-trust laws; control of marketing practices of foreign firms in import operations; cancellation of faulty trade marks; and supervision of registration and operation of associations of American exporters engaged solely in export trade.

5. Federal Aviation Administration (FAA)

The FAA is responsible for the regulation of air space and the exercise of federal government control over the physical facilities of civil aviation. FAA manages the national air space, prescribes and monitors safety rules for aircraft and operating personnel, and investigates air accidents. Although in essence operating as a quasi-independent federal body, the FAA is an agency within the Department of Transportation.

FAA is involved in international trade through prescription of safety standards for international air carriers in export and import traffic; promulgation of other rules of operation with derivative economic impact on domestic and international freight rates; promotion of civil aviation abroad by assignment of technical groups, training of foreign nationals, and the exchange of information with foreign governments; and promotion of a national system of airports.

B. Transportation Regulation

Generally speaking, there are three distinct types of regulation: economic regulation, regulation to protect public property or investment, and safety regulation. Most people, when they speak of regulation, probably have some form of government price setting in mind. Regulation, however, means much more than that.

1. Economic Regulation

The most common forms of economic regulation are rate regulation, regulation of entry and exit into or out of a given industry, and regulation of service and business practices.

a. Rate regulation

This type of regulation gives some government body the right to fix maximum rates or minimum rates or both, meaning that such a body or agency has the power to set the exact rate.

As a general rule the regulation of maximum rates is imposed for the purpose of protecting the public from exploitation by a business firm which is either operating as a monopoly or is operating in a situation in which economic forces will not permit a "natural" price ceiling to be established. It should be recognized, however, that when in the opinion of the firm maximum rates are set too low, economic incentive will be stifled and can result in firms withdrawing from the industry, new firms not entering the industry and thereby limiting supply, or a deterioration in the quality of existing service.

Minimum rate regulation is usually used to protect the public from price discrimination or to create some stability in an industry by preventing so-called [illegible] competition or to limit the intensity of price competition. When minimum rates are relatively high, it "serves as an umbrella" for inefficient or high [illegible] operators. In such cases, users or consumers of a service suffer by having to pay prices which are higher than market forces would dictate. This may, for example, prevent firms in one region [illegible] competitive with firms from another region in a given market.

b. [illegible] and exit regulation

[illegible] of regulation is usually, if not always, implemented by the use of a certificate or public convenience and necessity or a similar type of enabling authority. Such authority is made a pre-requisite to the operation, abandonment, or extension of the service of a given operator. If entry require-ments are relatively stringent this can lead to an undersupply of service. On the other hand, if entry rules are lax this can lead to a high turnover of firms with concomitant poor quality of service to users.

When exit regulations are imposed, operators must have permission to quit portions or all of their busi-ness. In some cases where operators are not allowed to abandon an unprofitable portion of their operation, users of the unprofitable portion are enjoying service subsidized by users of profitable portions of the system.

c. Regulation of service and business practices

Service regulation involves those portions of laws and their interpretations and enforcement which are aimed at separating common, contract, and private carrier operations. This is particularly true in the motor carrier industry. In addition, service regu-lation also involves rules and laws governing routes over which carriers may operate, schedules which must be maintained, commodities which may be carried, and similar matters. This type of regulation may to some extent obligate carriers to operate over uneconomic routes or maintain schedules which they do not desire. Limitations put on the number and types of commodities which a carrier is allowed to haul can result in some duplication of operations by carriers because a carrier is not allowed to haul a given commodity even though he has some unused capacity.

Regulation of business practices means that a regulatory agency is to some extent supervising such matters as carrier ownership and changes therein, operating and financial relationships between carriers accounting practices, and record and report-keeping activities of carriers. In this type of regulation managerial prerogative is circumscribed, and if the rules and regulations are too stringent it may lead to a disinclination on the part of businessmen to go into or remain in an industry.

2 Regulation to Protect Public Property

This type of regulation usually has its greatest impact on the motor carrier industry. Every state has regulations which deal with limitations on size, weight, speed, and equipment of motor vehicles. With a few special exemptions, these regulations generally apply to both private and commercial vehicles whether operating in intrastate or interstate commerce. These laws have been created for the following purposes:[1]

> "1. Protection of existing highways and bridges from destructive loads or loads considered to be destructive, and also protection of bridges from injury by vehicles of excessive dimensions.
>
> 2. Conservation of the resources of a state by enabling the provision of roads and bridges of standards consistent with the needs of the state and with its economic ability to bear attendant costs.
>
> 3. Promotion of safety and abatement of nuisances in road use.
>
> 4. The advancement of a state's interest in other ways, as through the control of competition between different forms of transportation."

Regulation of this type may have an economic impact on carriers. For example, approximately 50 percent of the revenue dollar of motor carriers is accounted for by wages and fuel, and since these two cost categories do not increase appreciably with increases in the size of vehicles, larger vehicles tend to be more efficient. Consequently, size limitations tend to be detrimental to the individual carrier.

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[1] William J. Hudson and James A. Constantin, Motor Transportation, New York: The Ronald Press Company, 1958, pp. 621-622.

3. Safety Regulation

This regulation is carried out both at state and federal levels and pertains to such matters as speed limits, qualifications of employees, inspection and maintenance practices, and the handling of explosives and other dangerous materials. Such regulations exist for all modes of transportation, and do have an economic impact on carriers. For example, in the dispute between railroad management and labor concerning the elimination of fireman on diesel locomotives and so-called "full crews," much of the labor argument against such elimination has been based on safety requirements. Management, on the other hand, has argued that safety is no longer an issue because of the high standards of modern equipment, and has pointed out that rather substantial savings could be effected through the elimination of the fireman and "full crews."

C. Federal International Trade Regulation

1. Export Regulations and Control

The following discussion covers the important features of U.S. export control regulations, particularly as they apply to carriers and traders. It is intended to provide essential background information leading to a better understanding of the responsibilities of those involved in export trade. The information provided is, however, only an outline of a very detailed and complicated set of regulations.

Also, these regulations are subject to continual change, modification, and revision. With this in mind, any foreign trader or carrier should either fully inform himself with regard to a particular transaction, or rely on the services of an experienced specialist. The full text of current export regulations can be obtained by writing to the Bureau of International Commerce, U.S. Department of Commerce, Washington, D.C., 20230.

a. Purposes of export control

The primary purposes of export controls in peacetime are to make certain that the export of domestic goods does not adversely affect the country's national security and welfare nor aid countries determined to be unfriendly to the United States; to insure the use of these controls as an instrument of United States foreign policy; to protect our domestic economy from excessive drain of scarce materials; and to reduce the inflationary impact of abnormal foreign demand. To further these ends, the federal government has adopted regulations designed to prevent the export of certain goods, and to control the movement of other goods of U.S. origin after they have been exported from this country. The object of the latter is to prevent unauthorized re-exports, diversions, or trans-shipments to countries to which our government would not authorize shipments directly.

b. Export Control Act of 1949

The primary legislative foundation for U.S. export regulations is the Export Control Act of 1949, which authorizes the President to control exports of both U.S. commodities and technical data to all foreign destinations. Export control authority has been delegated by the President to the Secretary of Commerce, and is administered by the Office of Export Control of the Bureau of International Commerce.

c. Export Administration Act of 1969

More recent export legislation is the Export Administration Act of 1969. It took effect on January 1. 1970, upon expiration of the Export Control Act of 1949, and will remain in effect until June 30, 1971. The important point to note with regard to this new export legislation is that all outstanding delegations, rules, regulations, orders, licenses or other form of administrative action under the Export Control Act of 1949 remain in full force and effect until amended or revoked, i.e., the same as if promulgated under the new Act. Thus, most of the basic provisions of the Export Control Act of 1949 are continued under the 1969 Act.

The Exporc Administration Act of 1969 does make a few changes, however. First, it is more liberal with regard to export of goods or technology which in the past could not be shipped to countries where they might contribute to "military and economic" potential to the detriment of the national security of the United States. The 1969 Act deletes "economic" from this criteria. The Act also allows exports which may contribute to military potential it these goods can be obtained elsewhere, unless national security interests clearly dictate otherwise.

Another provision of the Act directs the Secretary of Commerce to review restricted lists more regularly, with the object of making promptly any relaxation necessary or desirable in promoting trade. Finally, the Act of 1969 makes new provisions for administration of export control regulations. Traders are to be kept fully and promptly informed of all changes in regulations and commodity restrictions. In addition, record keeping and export documentation has been reduced for the trader.

d. Export licensing

Export licensing controls apply to exports of commodities and technical data from the United States; re-exports of commodities of U.S. origin from a foreign destination to another foreign destination; parts and components of U.S. origin used in a foreign country to manufacture a foreign end-product for re-export; and in some instances the foreign-produced, direct product of technical data of U.S. origin. While no special authorization is required by the Department of Commerce to engage in export-import trade, exports may not be made unless authorized by either a general or a validated license.

A general license is an authorization permitting export of certain commodities and technical data without the necessity of applying for a license document. A validated license is a document authorizing the export of commodities within the special limitations set forth in that document. It is issued on the basis of a formal application made to the Department of Commerce. No fee is charged to apply for or receive a validated export license.

(1) Country groups

For export control purposes all destinations, except Canada, are divided into the following country groups:

Group S: Southern Rhodesia

Group T: All Western Hemisphere countries except Cuba

Group W: Poland, including Danzig and Romania

Group X: Hong Kong and Macao

Group Y: Albania, Bulgaria, Czechoslovakia, East Germany (Soviet zone of Germany and East Berlin), Estonia, Hungary, Latvia, Lithuania, Outer Mongolia, and the USSR

Group Z: Communist China, North Korea, Communist-controlled area of Viet Nam and Cuba

Group V: All other countries, except Canada

Canada is not included in any country group since exports to that country are normally not controlled.

(2) Licensing policies for specific area

Most commodities can move to destinations in the free world under general license types designed G-DEST or GLV. The general license type G-DEST may also be used for most non-critical goods destined to Eastern European countries. The policies relating to the licensing of exports differ from one country group to the next, and, therefore, the exporter should ascertain the exact policy before attempting to export.

(3) Commodity controls

The Commodity Control List (CCL) in Part 399.1 of the U.S. Department of Commerce Export Control Regulations is the key to determining whether a specific shipment may be exported under a general license is needed. The CCL lists all of the commodities licensed by the Department of

Commerce and shows the destinations for which each commodity requires any special document. Also shown is whether any special requirement must be met in connection with the submission of the license application.

Once it has been determined that a validated license is required for a specific export, an application for a license should be submitted to the Office of Export Control of the U.S. Department of Commerce. An application consists of a completed Application for Export License (Form FC-419) and an Application Processing Card (Form FC-420). These forms are available free of charge from either the Department of Commerce in Washington or any of its field offices.

There are certain commodities and destinations which require that supporting documentation be submitted with the application, i.e., the import certificate or the consignee/purchaser transaction statement.

(4) Special license procedures

In addition to handling individual export licenses, the Office of Export Control has developed simplified procedures under which one application can cover a number of transactions.

(5) Other simplified procedures

A number of other procedures have been developed to facilitate exports without detriment to objectives of the Export Control Program. The Foreign-Based Warehouse procedure is typical of such procedures. It permits a qualified exporter in the United States to obtain licenses to export commodities to be stocked abroad for sale in the country where the stock is to be located or in other approved countries. Such stock must be located abroad and its distribution must be under the full and active control of a distributor who has been approved by the Office of Export Control.

(6) Destination control

To help insure that United States exports will go only to authorized destinations and will not be shipped illegally to other destinations, a "destination control statement" is required on shipping documents. Under this requirement most commercial shipments leaving the United States must show one of three statements, as appropriate, on the export declaration, bill of lading or air-way bill, and commercial invoice. This statement notifies the carrier and foreign parties (ultimate and intermediate consignees and purchaser) that the material has been licensed for export only to certain destinations and may not be diverted contrary to United States law. The exceptions to the use of this statement are shipments intended for consumption in Canada and shipments being made under certain general licenses.

(7) Parts and components

The use of U.S. origin parts, components, and materials in the manufacture abroad of commodities that will be exported from the country of manufacture to any other country is governed by Export Control Regulations. Such use requires prior authorization of the Office of Export Control.

2. Import Regulations and Control

All goods entering the United States from abroad are subject to the customs laws of the United States. After goods have passed through proper customs procedure, they are released for further use or distribution. Customs clearance is a complex procedure. It requires correctness of all documents and compliance with all detailed instructions. In the following discussion some important aspects of the customs procedure are highlighted. More detailed information concerning the exact procedure may be obtained from the U.S. Customs Bureau.

a. <u>Special customs invoice</u>

Every commercial shipment of goods with a value greater than $500, unless exempted under provisions of section 8.15 of the Customs Regulations, must be accompanied or covered by a special customs invoice. This form (Customs Form 5515) must be obtained by the foreign seller from the nearest United States consulate in his country. The completed form is forwarded to the importer in the United States, who must file it with the customs collector at the port of entry, with other entry documents, before the merchandise can be cleared for entry into the United States. Depending on the type of transactions, special customs invoices are classified according to whether the commodities are "purchased goods" (i.e., those acquired by purchase or agreement to purchase) or "not purchased goods" (i.e., those acquired by some means other than purchase). For purposes of tariff assessment, goods are considered to have been purchased if they were shipped as a result of a definite sale or agreement to sell, if the sale or agreement to sell was concluded at or before the time the goods were exported from the foreign country, and if the price paid by the purchaser was fixed. Goods acquired otherwise should be invoiced as "not purchased" goods and may not be included on the invoice with purchased goods.

b. General order

General order time is defined as the time allowed the importer to file an entry with the U.S. Customs. This is five days after the arrival of a vessel in port or of the goods at a border point. Technically, a vessel does not enter port until its master files his papers at the customhouse. General order time is calculated as five business days, starting with the day after the vessel has arrived at the port, Saturdays, Sundays, and holidays excluded. A formal extension may be granted by the collector at the port if necessary. If the entry is not made within the allotted time, the import goods are taken by the Collector of Customs and stored in a warehouse normally called a "general order bonded warehouse." Entry may then be made by the importer at any time within one year. The expense of warehousing is chargeable to the importer. If the goods are unclaimed at the end of a year, they are considered abandoned and are made available for sale at a public auction.

c. Documents required for entry

Documents required for proper entry of imported goods are a bill of lading, a special customs invoice (with certain exceptions), an entry form, and an appropriate bond.

(1) Bill of lading

The term "good" bill of lading usually is used to signify that the bill of lading has been properly endorsed. If the bill of lading is not available, the importer may secure a carrier's certificate from the steamship company by giving a letter of guarantee. The guarantee is usually signed by the consignee and by an interested bank that is obligated, along with the importer, to deliver to the carrier a good bill of lading as soon as it is available. The carrier's certificate and release form (Customs Form 7529) is nothing more than a form signed by a steamship company and addressed to the Collector of Customs, certifying that the importer is the owner or consignee of the articles described therein.

(2) Special customs invoice

The original copy of the invoice must be submitted at the time of making formal entry. This document originates with the exporter who forwards it to the United States importer with the other documents covering the transaction.

(3) Entry form

There are several types of entry forms to be filed with the Collector of Customs, depending upon the ~~circumstances~~ circumstances of the particular transaction and shipment. The most common type of entry is the so-called "consumption entry" (Customs Form 7501).

(4) Bond

An appropriate bond, usually a consumption entry bond, must be filed with each consumption entry. These may be purchased by importers and may be valid for terms up to one year. This procedure eliminates the necessity of filing a separate bond to cover each individual entry. When a single entry bond is used, it must be for an amount equal to the value of the goods covered [illegible] the duty.

d. [illegible] at Customhouse

After the necessary documents for entry have been assembled, the importer or his agent presents them at the customhouse where the declared duty is verified. [illegible] duty is paid and a receipt is issued by [illegible] the collector's office, a permit (Customs Form [illegible]) is issued by the collector, which is [illegible] of the invoice and summary sheet [illegible] to the appraiser by the collector requesting appraisement of certain goods.

When issued, the permit is delivered to the importer or his agent and dispatched to the customs inspector in charge of the point where the imported goods are located. The collector, at the time of issuing the permit, gives instructions to the inspector concerning disposition of the goods. These instr ctions indicate what portion of the shipment is to be sent to an appraiser for examination, or what may be examined at the pier or the importer's place of business, or any other designated place. Whether the goods are to be weighed, sampled, or held for examination by government agencies, is also indicated. Usually ten percent of the goods, but not less than one package or case, is examined by the appraiser. The balance of the shipment may be taken immediately by the importer, but the appraiser may, at any time before appraisal is completed, demand redelivery of all or part of the shipment within twenty days from the date of his report.

Goods which have been conditionally released should be held by the importer until he is certain that all the goods have been examined and appraised, and that the collector is satisfied with the estimated duties. The duty paid at the time of filing the documents is only a deposit, at which time the customs officer gives the importer the delivery permit.

e. <u>Determining dutiable value and final adjustment of duties</u>

Valuation is perhaps the most important element in the customs procedure, and appears to be responsible for most of the controversies and misunderstandings that arise.

The assessed value of goods dutiable at *ad valorem* rates determines the amount of duty to be paid. The value is determined by appraisers who inspect shipments and confirm the accuracy of invoices, or who make necessary corrections. The importer and the appraiser are both governed by the provisions of the tariff law. As the basis for the assessment of duties on imported goods, Section 503 of the Tariff Act defines dutiable value as the final appraised value. It is clear that the importer, who declares the entered value, and the appraiser, who determines the appraisal value, must cooperate and be in agreement. Otherwise delay, expense and possible litigation may result.

To remain competitive, an importer must reduce to an absolute minimum all penalties, increased costs, or delays. An importer's self-interest dictates that the invoice, together with additional papers, documents, correspondence, orders, price lists, quotations, and other information necessary to substantiate the value declared, including required declaration of values, be submitted to the appraiser in advance of entry. If the appraiser has information based on previous importations of similar merchandise, it may aid the importer to enter the value accordingly, unless a difference of opinion exists. The importer may then want to declare a different value as the basis for a test case requiring judicial determination. This is called an "appeal entry." Prior to final appraisal, if the importer receives information indicating that a value should be used, he will usually be allowed to amend the entered value so that it will agree with the appraised value.

f. Basis of value

The Customs Simplification Act of 1956 made important changes in the bases of assessment of value of imported merchandise. The bases of value are the export value; or if the export value cannot be determined satisfactorily, then the United States value; or if neither the export value nor the United States value can be determined satisfactorily, then the constructed value for an imported article subject to a rate of duty based on the American sales price of a domestic article; or the outright American selling price of such a domestic article.

g. Import quotas

An import quota is a quantity control on imported merchandise for a certain period of time. Import quotas may be divided into two types, absolute and tariff rate.

Absolute quotas limit the quantity of goods that may enter the commerce of the United States in a specific time period. When the quota is reached, further entries are prohibited for the remainder of the period.

In contrast, tariff rate quotas permit a specific time period. When the quota is reached, further entries are prohibited for the remainder of the period.

In contrast, tariff rate quotas permit a specific quantity of an imported product to be entered at a reduced rate of duty during the quota period. There is no limitation on the amount of the quota product that may be imported at any time, but quantities entered during the quota period in excess of the quota for that period are subject to higher duty rates.

D. Foreign Government Regulations

Most countries use controls similar to those of the United States for selected imports. These control devices take such forms as quotas; import licenses; foreign exchange restrictions; quarantine and other regulations; and restrictions applied to certain commodities, such as food products, drugs and pharmaceuticals, and explosives and inflammables. Import duties may be levied for revenue purposes or to protect local industry. In some countries, government manufacturing monopolies for certain products (such as tobacco or matches) may virtually bar products from the United States.

Specific regulations also govern the marking and labeling on packages and containers in many countries. The United States exporter may have to change labels in deference to local customs, while a translated version of the English text may suffice in some countries. In other countries, the label may not have to be translated from English at all.

Certain countries have requirements concerning containers. For example, the United States exporter may be required to sell certain items in tubes rather than in cans, or by the litre and kilogram instead of by the gallon or pound.

In view of the above, the exporter needs information regarding licensing and exchange controls of foreign countries, import tariff systems, and patent and trademark requirements.

It is clear, then, that before exporting to any foreign country a United States exporter must seek specific information concerning the various regulations that will affect the transaction he is planning. Information regarding import duties, relevant internal taxes, and import restrictions applicable to any specific product going into a specific foreign country, may be obtained from the Department of Commerce or one of its field offices. Other sources of information are _Overseas Business Reports_, _The Exporter's Encyclopedia_, _Commerce Today_, and _International Commerce_. Foreign government embassies, consulates, and officials in the United States may also make trade information available.

IV. FINANCING

Financing problems unique to international trade are often due to differing business environments. Differences in financial institutions, government regulations, and currencies and their exchange values, give rise to these problems. Moreover, currency values and exchange rates often flucturate unpredictably. A lack of understanding of the institutions and instruments used in the financing of exports and imports can be a serious barrier to profitable operations. The following discussion, therefore, is focused on some financial aspects of international trade.

A. Private Financing Institutions

Commercial banks and private finance and credit companies are two major groups providing financial services in international trade.

1. Commercial Banks

Domestic and foreign commercial banks are of major importance in financing export and import transactions. Many United States commercial banks do business with the principal commercial banks abroad. By acting as their correspondent in the United States, by extending credit and other accommodations, and by personal contacts, United States banks have established international relationships and knowledge relating to financial matters connected with foreign trade which are extremely helpful to businessmen. Whether exporters and importers seek outside funds or rely on their own resources to finance transactions across national boundries, the commercial banking system can supply services that make such financing possible through a system comprised of branches and subsidiaries.

For the exporter who wishes to extend his own credit to buyers abroad, commercial banks are able to provide credit information so the seller can choose terms suitable to the risk in dealing with each customer. For regular customers, most large banks also provide at cost or free of charge foreign market research and information on exchange rates and tariffs, import and export regulations, licensing procedures, and political and economic conditions. Banks also put the international businessman in contact with foreign lawyers, distributors, agents, and brokers who can provide key services. Upon a customer's request, a bank will often obtain names of dependable suppliers of raw materials. As advisors and financiers in international commerce, commercial banks perform several routine operations essential to their role, such as foreign exchange trading, collecting foreign bills, discounting and loaning against bills payable abroad, and opening letters of credit. These services entail explicit charges.

Commercial banks are a major source of short-term financing of international trade. By making loans and discounting bills of exchange and time drafts, banks provide funds to exporters and importers. Funds may also be provided through <u>acceptance financing</u>, which is a time draft or bill of exchange drawn on a bank (usually by a trader), calling for payment at a specified future time and bearing a certification of "acceptance" by a bank. Acceptances may readily be sold in the money market, although the acceptance market itself is somewhat narrow.

2. <u>Nonbanking Companies</u>

a. <u>Factors</u>

Private finance and credit companies, such as factors, will often undertake risks beyond those usually covered by commercial banks and beyond the scope of the line of credit the exporter may have at his bank. If factors are satisfied as to the responsibility of the foreign buyers (unlike commercial banks which are primarily interested in the seller's responsibility), they will purchase without recourse the receivables covering goods shipped, and in this manner provide funds needed by the exporter. The factor then collects from the buyer directly. Factoring allows an exporter to sell on open account, and enables him to extend extremely competitive financial terms to customers; however, the cost to the exporter is greater than usual types of bank financing.

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b. Export merchants

Another means of financing exports is to work through export merchants or confirming houses. Whenever credit information on foreign buyers is inadequate or banks are unable to provide credit facilities, manufacturers may resort to these institutions. Transactions between domestic manufacturers and export merchants, however, have only a remote connection with export financing. These transactions may be more properly classified as domestic sales, since the domestic manufacturer sells goods to the export merchant who, in turn, sells the goods abroad. Only a small price adjustment and special packing may distinguish the export merchant's order. The main advantage of an export merchant is that he has experience selling abroad and can, in effect, be the "export department" of a domestic manufacturer.

B. Methods of Payment

The particular method of payment used by an exporter governs the nature and extent to which he extends credit to a foreign buyer. Payment methods indicate the terms of sale, which are determined to a great extent by the degree of control the seller wishes to retain over the merchandise and the limit he desires to place upon the extension of credit. Several other factors influence the terms of sale. These include the type of merchandise, amount of money involved, market customs, country of destination, exchange restrictions, buyer's credit standing, seller's financial condition, and terms granted by foreign and domestic competition.

Export sales are usually paid for by documentary draft (bill of exchange), letter of credit, open account, or consignment. Other less used methods are also available.

1. Documentary Drafts

According to the Negotiable Instruments Act a draft, also known as a bill of exchange is an

> "...unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determined future time a certain sum in money to order or to bearer."

To be negotiable a bill must conform to these requirements. Through the use of drafts, an exporter may employ his bank as the collection agent on accounts the exporter himself finances. The bank forwards the exporter's bills to the foreign buyer directly or through a branch or correspondent bank and then converts or remits the proceeds of the collection to the exporter.

a. Types of drafts

(1) Sight

In the case of the sight draft, which is payable upon presentation to the buyer, remission of the face value is made within one or two weeks. The sight draft is characterized by D/P, or documents against payment, since the shipping documents and title to the merchandise are not released to the buyer until payment is made to the collection agent. The cost of financing in this case is equal to the total of bank fees and cable and postal charges imposed by the governments of the importing and exporting nations.

(2) Acceptance

Another form of the draft used when the exporter is willing to deliver the shipping documents [illegible] is the D/A, or [illegible] the buyer is [illegible] upon signing [illegible] thereby giving a [illegible] of payment. The documents certifying [illegible] and [illegible] of shipment are normally entrusted to the collecting bank together with exporter's draft.

(3) Clean

Occasionally [illegible] drafts unaccompanied by [illegible] are given to the collector and the remaining forms are sent directly to the buyer. In most cases, however, the exporter will prefer to ship all forms at once and keep title within exclusive control of his agent bank until payment is received or the draft is "accepted."

(4) Time-

Another type is the time draft which stipulates payment to be made within a certain number of days after the date of acceptance by the buyer, usually 30 to 180 days, or which specifies a due date for payment based on the date of issuance. The latter is known as a date draft.

When the exporter draws his draft on the foreign buyer, he will complete a lengthy set of instructions to the bank covering the tenor of a time draft, and specifying the time or date when payment must be made. The currency for payment is also prescribed, which determines who will have the burden of insuring against risk of exchange rate fluctuations.

b. Advantages

The advantages of the draft, or bill of exchange, method of financing to both buyer and seller are numerous. The seller is protected because title to, and therefore ownership of goods, is not transferred unless payment, or arrangement for it, has been made. Drafts, once accepted, are subject to international law, and the seller has the right to protest in situations of non-payment. The seller may obtain financing and immediate payment by discounting the draft to offset his financial outlays. The buyer is benefited by having to make no cash outlays in advance, and may, as in trust receipt financing, secure funds to make immediate payment easier or more feasible. In the case of time drafts, the buyer may not need large cash sources if he is able to secure a subsequent buyer before he has to make payment. Transactions are handled through banks, which benefit both seller and buyer in that the transaction will be handled in an orderly manner and transfer of ownership will be made in accordance with predetermined means and insure condition of the goods, safeguarding both parties.

c. Disadvantages

There are two main disadvantages to the draft method of financing. First, it does not protect the seller against political or economic risks or the inability of the buyer to pay, or against disputes on terms of sale and transfer of ownership, which can be time consuming and costly.

Second, transactions may be complex and time consuming, and errors in shipments are not easily rectified.

2. Letter of Credit

A letter of credit provides a simple arrangement between seller and buyer which dispenses with any possible conflict over sight draft terms, extended credit terms, etc. It is a written statement issued by a bank, addressed to an identifiable party or parties, whereby the bank agrees to honor all drafts drawn on it within a stated period of time, provided that certain conditions with regard to the goods are met by the party or parties to whom it is addressed. The amount of letter of credit is agreed upon by the buyer and the seller, and the transaction is handled through their banks.

3. Open Account

Financing an open account in international trade is handled in the same way as in domestic trade. The buyer simply charges his purchases, and his account is treated by the exporter as any other receivable. Thus, sales are made without any safeguards, with the expectation that the buyer will make payment at a previously agreed-upon time. Payment is made by the buyer either by direct remittance or by honoring a draft drawn on him by the seller. The major weaknesses of open account financing, at least in the terms of the risks that are created for the sellers, are that no tangible payment obligation exists, there is no definite date, except as agreed upon by the buyer and seller, and there is a tendency on the part of some buyers to delay payments.

a. Advantages

Among the advantages to the seller are ease of negotiation and execution of sale, lack of complicated documentary requirements, lower intermediary charges or expenses, good trade relations; and in some cases where credit balances are established in favor of the seller, no risk. The advantages of this method to the buyer are obvious. No prior commitment is required of him. The buyer does not have to seek outside resources or complicated financial arrangements prior to the arrival of the goods, and in many cases will have sold them before payment is due; hence he has received short-term trade credit of up to [illegible] to 180 days at little or no cost.

[illegible]

[illegible] seller assumes the full burden of risks of [illegible] exchange [illegible] and buyer default and insolvency. When the importer is allowed to pay in his own currency and payment schedules are erratic, the exporter may not be able to cover adequately the risk of exchange rate deterioration. Collections from foreign customers are sometimes difficult and costly. In view of the risks, the seller probably should only sell on open account when utmost confidence in the buyer is accompanied by stable economic and political conditions. The exporter can eliminate the risk to himself by factoring those accounts that a factor will accept.

4. Consignment

Under the consignment method the exporter ships his goods to a foreign buyer and payment is deferred until the goods are sold. In other words, the goods are placed in the hands of, or consigned to, the exporter's own agent or subsidiary, or an independent agent, broker, or import house. Title to the goods does not pass until the goods are sold to users and payment is made to the exporter for them.

Under this arrangement there is no guarantee that the goods will be sold and no financial commitment is made by the buyer to the seller. Consignment to any independent agent, broker or importer raises most of the same problems encountered in open account transactions, i.e., liability and risk of the seller are considerable, with no financial commitment or guarantee from the buyer.

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a. Advantages

In some cases the method of consignment may have advantages for the seller, for example, in situations where sales would not ordinarily be made, or where the seller wishes to create new markets for his product. Also, in some cases, government regulations are such that consignment selling may be mandatory.

b. Disadvantages

The disadvantages of this method to the seller are numerous. First, payment for the goods is not made until the goods are sold, which may be over long periods of time. Second, there is no guarantee that the goods will be sold and, hence, no financial burden on the buyer, but great risk to the seller requiring great financial outlays with no guarantee of sales. This method does not protect the seller against any political or economic risks which might also lead to non-payment.

Other Means of Payment

Another method of selling goods abroad is on the basis of strict terms of sale. In certain cases, and quite opposite to the lax collection methods implied by the extension of credit on open account, the seller may refuse to sell on credit and try to secure the agreement of the buyer to very strict terms of sale. Cash-in-advance, or CIA, is the most stringent of these. Payment under these terms is made in advance to the seller before he contracts for the sale. This is common in some types of products, such as machinery, where a partial or full payment is made to secure the transaction until completion and shipment. The cash-with-order, or CWO, is another form that varies slightly from the CIA in that acceptance of the contract by a buyer takes place along with the payment in advance of the shipment. The cash-on-delivery, or COD, is similar to the sight draft, D/P, in that the buyer must pay on delivery before he can obtain title to or possession of the goods.

In the case of CIA and CWO financing, payment is guaranteed in advance, with no risk to the seller. The buyer, on the other hand, is forced to pay in advance, and to make financial outlays before the goods are even contracted or shipped. In COD financing there are certain disadvantages which make the draft financing more equitable to the seller. Principally, the advantages and disadvantages are the same as in the case of the sight draft, with the exception that no recourse exists for non-payment. There are also additional problems above those with the draft, such as no means of protest in non-payment, no outside direct means of financing for either party, no clearly organized consummation of sales and transfer of ownership, no predetermined means of establishing settlement, and no means of efficiently settling disputes over goods or terms.

In certain areas of the world there are other methods of payment, such as the authority to pay and authority to purchase, both of which are somewhat similar to the letter of credit. Information on how and where these should be used is available from the international department of commercial banks and from U.S. Department of Commerce Field Offices.

C. Export Credit Insurance and Guarantees

Experience has shown that the risks associated with export sales are not necessarily greater than those encountered in domestic sales. However, some risks not evident in domestic sales may arise which are beyond the control of the exporter. For this reason, protection against many of these risks is available through insurance and guarantee programs established by Eximbank (the Export-Import Bank) and administered in conjunction with the U.S. commercial banking and insurance community. Exporters should be aware, however, that this protection is available only for credit extended on terms which are normal for the specific goods in which they are dealing.

Eximbank and FCIA (Foreign Credit Insurance Association) can protect the exporter against losses due to commercial risks (bankruptcy of the buyer, protracted default, etc.) and political risks (war, revolution, expropriation, currency inconvertibility, cancellation or restriction of export and import licenses, etc.) on both short-term and medium-term credit. Eximbank and FCIA offer comparable medium-term credit protection. The Eximbank guarantee is extended to the exporter's bank, which in turn carries a portion of the export paper for its own account.

FCIA issues two basic policies: short-term, covering sales of any product sold on payment terms up to 180 days (rarely for longer periods); and medium-term, covering sales of machinery, plant equipment, and other capital-type products, sold on terms of 181 days to 5 years.

Each of these is divided into two categories: Comprehensive, covering both commercial and political risks; and Political Risks Only, under which the exporter self-insures his normal commercial risks such as the insolvency of, or the protracted payment default by, the buyer.

Short-term policies generally require the exporter to insure all his credit-term sales to all markets, though certain exclusions to this "whole-turnover" principle may be negotiated. Medium-term policies are issued on a case-by-case basis to cover a single sale or a series of sales to the same buyer.

More recently, FCIA has introduced a new combined Short-term/Medium-term policy designed primarily for exporters selling equipment and parts to distributors and dealers. Short-term coverage is provided for sales of parts or for sales of equipment during a "floor-plan" or similar arrangement;

medium-term coverage would then apply following resale of the equipment on extended terms to an end-user.

The proceeds of FCIA policies may be assigned to a bank. Many exporters use this arrangement to expand their lines of credit, or to secure additional bank financing. Alternatively, any of the comprehensive policies may be issued to a financing institution, which itself assumes the insured risks from the exporter.

Both FCIA insurance policies and Eximbank guarantees to commercial banks may be for sales for which orders have been obtained or are being negotiated, or they may be provided as advance commitments to meet bid invitations or to permit negotiations. Additional special coverage is also available by endorsement of the policy, including preshipment protection during period of manufacture, or protection for merchandise on consignment, or sales from warehoused stock abroad.

Costs, other information, and application forms are available from insurance agents and brokers, or from the Foreign Credit Insurance Association, 250 Broadway, New York, N.Y. 10007.

E. Foreign Exchange Practices

In addition to credit risk, which is common to both domestic and foreign trade, those dealing in international commerce are faced with risks relative to the exchange rate. An exchange rate is the price of one national currency in terms of another. Exchange rates fluctuate for a variety of reasons. Structural changes in national incomes and movements in the level of prices are examples of the many forces influencing the supply of, and demand for, foreign exchange. These, in turn, determine the rate of exchange.

There are a number of problems for traders which are related to the effects of exchange rate movements rather than to the causes of such movements. For example, the sale of a commodity at present prices for future delivery may result in gains or losses depending on movement in the exchange rate. As an illustration, assuming that $/1 is equal to DM3.75 (Deutsche Mark--the German monetary unit), and that a contract is made by an American manufacturer to deliver a certain piece of machinery at some future date for DM 1000. If the exchange rate is unchanged at the time of delivery, the American will receive DM 1000, which is equal to $266.67. On the other hand, if the exchange rate at the time of delivery has changed so that $/1 equals DM 3.80, the manufacturer will still receive DM 1000 but will realize only $263.15 (or a "loss" of $2.51). A gain of $3.60 would have accrued if the $/1 were equal to DM 3.70 at the time of delivery.

i. Organization of Foreign Exchange Market

Because of these special problems related to the fact that several national currencies, accompanied by fluctuating exchange rates, may be involved in international trade, and also because it is extremely difficult for each importer in need of foreign exchange to seek out an individual exporter with the proper amount of foreign exchange for sale, foreign exchange markets and their specialized intermediaries have developed in major financial centers to deal with these problems and needs.

a. Types of markets and transactions

The foreign exchange market is divided into the spot and forward markets, the latter being also known as the "futures" market, analogous to the futures market in commodities. Spot transactions in foreign exchange are those where immediate sale of or delivery of the foreign currency is involved. Forward, or futures, contracts [illegible] a commitment to sell or deliver a given amount of [illegible] currency at a [illegible] price at some [illegible].

When an [illegible] ahead with payment projected in the future, he runs the risks inherent in fluctuations of the rate of exchange. These risks can be handled through facilities of the forward exchange markets. [illegible] foreign currency [illegible] time in the future contracts with a bank or dealer [illegible] purchase this currency forward, or for the [illegible], at a price fixed at the time he import contract is signed. He then is no longer concerned with fluctuations in the rate of exchange, because he has contracted for the required currency at a determined price and date.

An exporter selling his goods in foreign currencies may similarly sell his anticipated foreign exchange receipts forward and be relieved of worry about possible shift in the rate of exchange. The forward markets thus provide a cover or hedge against fluctuations in exchange rates, and make it unnecessary for the exporter or importer to take a "position" himself in the foreign exchange market.

The transaction that takes place in the foreign exchange market, then, can be thought of as the conversion of freely useable funds of one country into freely useable funds of another country. The rate at which such conversion is made is known as the foreign exchange quotation. This may be given in dollars and cents per foreign unit, such as one English Pound at $2.4075, one Canadian Dollar at $.9758, one French Franc at $.2041, etc; or the quotation may be given in terms of foreign currency units to the dollar, for example, 4.80 French Francs to the Dollar, 635 Italian Lire to the Dollar, etc. It is important to note that the exchange rate quoted applies only at that particular moment. A quotation given at a certain time by wire or telephone is good only at that time, or, upon request, for a specified time limit agreed upon, usually until the customer is able to give his acceptance or non-acceptance of the rate.

b. Market structure

Converting foreign exchange into dollars, or dollars into foreign exchange, is a service usually provided by banks. In the United States most commercial banks are equipped to handle the foreign exchange requirements of their customers, either directly or through their large correspondents. Any major bank can usually provide the foreign trader with up-to-the-minute information on buying and selling rates for any currently traded foreign currency. Through its knowledge of international trends, impending political shifts, or large scale capital investments, the bank is also in a position to anticipate significant fluctuations in foreign exchange markets.

Like most nationwide financial markets, the market in foreign exchange needs one center, where the net balance of supply and demand can ultimately be reflected and where the bulk of the large transactions will actually occur. For the United States that center is New York City. The foreign exchange market, unlike the stock exchange or commodity exchange, has no centralized meeting place and no fixed opening or closing time. The market has no requirements for participation except the informal acceptance of financial and moral conduct that have evolved over time. This market is the mechanism, then, whereby buyers and sellers of foreign exchange are brought together. There is little face to face contact between buyer and seller; rather, trading takes place predominantly over telephone, teletype, or cable.

There are approximately twenty-five U.S. banks, mostly in New Yor, which maintain deposits in commercial banks abroad to facilitate their dealings in foreign exchange. In addition, about forty branches and agencies of foreign banks maintain representatives in New York. All these branches and agencies handle dollar accounts of foreigners, some carry dollar accounts of United States residents, and most trade actively in foreign exchange. There are also a number of specialized foreign exchange dealers who trade mainly in foreign bank notes.

The New York foreign exchange market may be broadly described as a three-tiered market. First, there are transactions between banks and their customers, exporters and importers, who are the ultimate users of the foreign exchange. Second, there are transactions between the banks that make up the market. Third, there are transactions between the New York banks and banks abroad.

2. Mechanics of Forward Exchange

A forward exchange contract between a bank and a customer calls for delivery at a future date of a specified amount of foreign currency against dollar payment, with the exchange rate fixed at the time the contract is made. At the time the contract falls due, the spot rate for the currency may be above or below the rate specified for the maturing forward transaction, but this has no effect on the contracted rate. As in most foreign exchange transactions, contracts are ordinarily made by telephone and later confirmed in writing. Forward exchange contracts are common in major national currencies such as the Pound sterling, Canadian dollars, and certain Continental European currencies, particularly German marks, Swiss francs, and the Dutch guilders. A certain "thinness" persists in the market for other European and most non-European currencies; nevertheless, it is often possible to arrange for transactions in these currencies.

While rates quoted in the foreign exchange market are usually for one, three, or six months delivery, each contract between a bank and a trader (except for "option" contracts discussed below) calls for delivery on a specified date. As a result, while the market rates form the basis for forward rate quotations to a customer, there is actually a separate rate negotiated for each forward contract, depending on its maturity.

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Forward exchange rates are often quoted as a discount from, or a premium on, the spot rate. For example, if spot sterling is quoted at $2.40 and the one month forward rate at $2.3950, the one month forward rate may be quoted as a 50-point (½ cent) discount. Similarly, if the Canadian dollar is quoted at U.S. $.98½ and the six month forward rate at U.S. $0.98 3/4, the six month forward rate may be expressed as a ¼ cent premium. Forward rates are sometimes expressed also as a percentage deviation from the spot rate on a per annum basis.

For currencies such as the pound and the Canadian dollar, forward exchange contracts of up to a year's maturity can easily be arranged. Contracts beyond this maturity are unusual, but do occur from time to time. The problem here is that it is difficult for a bank to find an offsetting contract of comparable maturity to protect itself against exchange risks.

Since many forward exchange transactions are based on expectations of payments or receipts involved in future trade or financial operations, it is sometimes difficult for sellers or buyers to know exactly when they will need, or be in a position to deliver, the foreign currency. If one is certain, he can make a forward purchase or sale of the foreign currency that matures on a particular date. If, on the other hand, the buyer or seller knows only approximately when a currency will be needed or received, he can make a <u>forward option contract</u>. Ordinarily, these contr cts call for delivery at the beginning of the month (the first to the tenth), the middle of the month (the eleventh to the twentieth), or at the end of the month (the twentieth to the thirty-first), but considerably more refined contracts can be arranged by banks at the request of the customer. Under such contracts, the bank agrees to make payment or receive delivery of the foreign exchange at any time within the option period. Option contracts are usually somewhat more expensive than an ordinary forward contract, since the bank must protect itself by basing its rate on either the earliest or latest date on which delivery can be made. If the rate differs between these two dates, the bank will charge the customer the highest of the two. The customer, of course, obtains the compensatory advantage of having considerable leeway in timing the execution of the forward exchange contract through which he covers the exchange risk involved in the particular foreign business transaction.

It is obvious that there is more risk involved for a bank in forward exchange transactions than there is in spot transactions, because of the more remote date of payment in either dollars or foreign exchange. As a result, the credit rating of an exporter or importer is an important element in forward exchange transactions. Often a firm engaging in forward exchange transactions will have a special line of credit for such purposes approved by the credit department of a bank, or perhaps the forward exchange operations will be included in the firm's general line of credit.

It is clear, then, that the forward exchange market is very useful to both exporters and importers. Since United States exporters and importers usually deal in terms of dollars, it is essential for them to know what the dollar value of their foreign exchange receipts and payments will be.

Many firms leave their exchange risks uncovered except in times of uncertainty over the future of the exchange rate. Some exporters, for example, do not cover their exchange risks in normal times, but rush to do so if they fear a depreciation of the foreign currency involved. Some importers tend to leave their future exchange needs uncovered if they anticipate a fall in the exchange rate. Similarly, if an appreciation of the exchange rate is anticipated, importers rush to cover future needs, while exporters tend to leave future needs uncovered in the forward market. Nonprofessionals, and for that matter professionals, who refrain from covering in the forward market may incur substantial risks. There have been several periods in postwar years when failure to cover has resulted in considerable loss. Most banks advise customers to cover exchange risks so that they can concentrate on the normal problems of their business or trading activity without adding the problem of fluctuations in exchange rates.

Several factors, then, enter into each business firm's decision regarding the choice of the various forms of bank and non-bank financing of imports and exports and the decision whether or not to provide forward cover for a particular foreign transaction. Some of these factors are: anticipated trends in exchange rates, interest rate differentials between countries and between instruments offering the same protection, and the burden of managerial time involved in the use of each method.

3. Multiple Exchange Practices

Foreign traders should be aware of the existence of so called "multiple exchange rates." This simply means that a particular country may have different exchange rates for different kinds of transactions. For example, in the Philippines until recently there was one exchange rate for exports and a single, free market rate for all other transactions. Such multiple exchange rates may be very complex, as in Colombia, where the exchange rates for different types of transactions at the same point in time have ranged from about 9 pesos to U.S. $1.00 to about 18 pesos to U.S. $1.00. Simple or complex, multiple currency practices are fairly widespread. Their primary locus is Latin America, but they frequently occur in Asia, the Middle East, and elsewhere.

V. TRANSPORTATION INSURANCE

Transportation insurance is a vital part of export and import trade. In its most basic form, it provides a means to reimburse owners or others with a bone fide interest in the goods carried for any loss or damage for which the carrier is not liable. Protection can be provided by insurance to cover all transport risks from the time goods leave the seller's warehouse or factory, wherever located, until they reach the final destination stipulated by the buyer.

The need for transportation insurance is directly related to the extent of liability for loss or damage assumed by carriers. Generally speaking, carriers in international transportation normally are exempt by law and custom from liability for damage or loss unless negligent. Ocean carriers assume a lesser liability than do land carriers. Certain hazards faced by ocean carriers are not encountered by inland carriers, and are beyond the control of the ocean carrier. Losses due to perils of the sea (e.g., heavy weather, sea water, stranding, fire, and sinking) are not the fault of the carrier unless negligent. Also, there are times when a carrier will intentionally sacrifice part of the vessel or cargo to protect the rest of the property from a common danger. (Known as general average, such an intentional sacrifice is made for the common good. Whatever losses are incurred are shared by carrier and cargo owners.)

A. When to Insure

Insurable interest is a deciding factor in the question of who needs transportation insurance and when to insure. In general, one has an interest in a shipment if he will benefit from the safe arrival of the shipment at the final destination, or if he will be hurt by its loss, damage or detention. This covers a broad range of situations which include carriers, cargo owners, and nonowners.

The risks of both seller and buyer are determined by the terms of sale and how the money covering the sale is to be collected. These two factors influence when and by whom insurance should be placed.

1. Terms of Sale

Terms of sale (also known as "trade terms") govern the relationship of property to owner and specify the point at which transfer of title takes place. This may be at any designated place mutually agreed upon in the sales contract: the point of shipment, some place between seller and buyer, or the point of delivery. An understanding of the different terms of sale is essential to knowing when to place insurance. Under most terms of sale, responsibility for obtaining transportation insurance lies, from a legal point of view, with the buyer. In many industries or trades, however, it is customary for the seller, by prior arrangement, to obtain the necessary insurance for the account of the buyer.

According to the "Revised American Foreign Trade Definitions, 1941" (see Appendix A) there are six sets of terms of sales.

a. Ex point of origin

Included herein are such terms as "ex factory," "ex warehouse," "ex mill," etc. Under these terms the seller is required to place the goods at the disposal of the buyer at the specified point of origin on the date, or within the period, stipulated. The seller's responsibility and costs end at this point, while the buyer acquires an insurable interest at that time.

b. F.O.B. (free on board)

Under these terms the seller is required to bear costs and charges and to assume risks until the shipment is loaded on board a named carrier at a named point. There is a wide range of F.O.B. terms; these terms normally specify named points in the exporting country. The seller's responsibility and cost end when the goods are loaded on the appropriate carrier and a clean bill of lading is issued.

c. F.A.S. (free alongside)

Under this term, the seller is required to place goods alongside the carrier at the port of shipment. Up to this point the seller assumes the risk of loss or damage. Providing transportation insurance is the responsibility of the buyer, but the seller should protect himself with an F.O.B. Sales Endorsement. This coverage protects the seller from transit risks from the point of origin to the point at which ownership is assumed by the buyer, i.e., alongside the ship.

d. C.& F. (cost and freight)

This term means that the seller's price includes the cost of transportation to a named destination point, but does not include insurance coverage. The seller's legal liability ends when the shipment is placed in custody of the carrier at the port of exportation. Insurance is the responsibility of the buyer.

e. C.I.F. (cost, insurance, and freight)

This term is the same as C. & F., except that the seller is responsible for providing the necessary insurance. He is obligated to provide and pay for transportation insurance, and to provide war risk insurance as obtainable in his market at the time of shipment. War risk insurance is at the buyer's expense. The seller and buyer should be in clear agreement on this point, since in time of war or crisis the cost of war risk insurance may change rapidly.

Insurance coverage should be agreed upon with respect to inclusion of terms such as W.A. (With Average) or F.P.A. (Free of Particular Average), as well as any other special risks that are covered in specific trades, or against which the buyer may wish individual protection. Among the special risks that should be considered are theft, pilferage, leakage, breakage, sweat, contact with other cargoes, and others peculiar to a given trade.

In all cases, there should be a clear understanding as to the value for which the goods are to be insured.

f. Ex dock

This term is more common to United States imports than to exports. In addition to the C.I.F. terms (see above), the seller's price includes the cost of the goods and all additional charges necessary to put them on the dock at the named port of importation, with import duty paid. The seller is then obligated to provide and pay for marine insurance and, in the absence of specific agreement to the contrary, war risk insurance. The seller is responsible for any loss or damage until the expiration of the free time allowed on the dock at the named port of importation.

2. Method of Payment

In certain situations the seller has an insurable interest, even though title has passed to the buyer. That is, the seller has a financial interest in the goods being shipped until he actually receives payment from the buyer. In these situations the seller should see that his interest is protected. Whether or not to insure the goods depends on the method by which the seller collects his money from the overseas buyer. If the seller collects by draft, he carries the financial risk until the buyer pays the draft. If the buyer does not pay for the delivered goods, then the problems of disposing of the goods and the risk of loss fall on the seller. A similar financial risk exists when sales are made on open account.

In order to minimize his risks, a seller should arrange for insurance to protect himself against impairment of the buyer's desire to pay as agreed due to loss of, or damage to, a shipment. Such protection is a good hedge against inadequate coverage obtained by the buyer: what may be complete insurance coverage for the buyer may be

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minimal coverage from the point of view of the seller. Another consideration is that insurance obtained by the buyer may be in a foreign currency that is subject to substantial changes in market value or even devaluation, causing a loss in exchange if payment of a claim is necessary. Currency restrictions or regulations may be such as to complicate the transfer of funds, and possibly even limit the availability of funds. For example, in some countries, exchange controls do not provide for the allocation of foreign exchange for payment until the goods have arrived. Under this condition, where goods are lost prior to arrival, the buyer would be unable to secure currency with which to meet his obligations to the seller.

While some of these risks may seem remote, others are not so remote. Consequently, a seller should attempt to control the insurance as much as possible so as to be certain his equity is fully protected. There are, however, some national laws which require that insurance on shipments to those countries be placed with local insurance companies. The effect of this is to require the buyer to furnish insurance. An exporter in the United States can still protect himself by acquiring "contingency" or "Difference in Conditions" insurance. This supplementary insurance protects the exporter's interests in the event the buyer's insurance fails or falls short. The cost of such insurance is absorbed by the exporter.

B. Types of Policies

Export shippers can obtain cargo insurance on one of two bases: either under an open policy contract or by acquiring a special or specific insurance policy for a particular shipment.

1. Open Policy

The open policy system is the most widely used. It is absolutely essential for firms regularly engaged in exporting and importing. When a relatively high frequency of shipments occur, it may be impracticable for the seller or buyer to secure special marine policy protection on each shipment and be certain there is coverage at all times. Moreover, it may be very costly to do so.

Under the open policy arrangement, a contract is signed between the assured and the insurance underwriter which provides coverage for all overseas shipments. The open policy remains in force until cancelled, and it is not negotiable. The particulars of each shipment covered by the open policy must be reported or declared to the underwriter prior to or simultaneous with shipment or as soon thereafter as is practicable.

2. Special Policy

When only occasional shipments are made, or when evidence of insurance must be furnished others, (e.g., to banks, lawyers, or third parties, in order to facilitate collection of claims in another country) a special policy, often referred to as a <u>certificate</u> may be utilized. The special policy covers only one shipment, and is a negotiable instrument. A claim is payable to bearer when the policy or certificate is properly endorsed.

When a regular shipper carrying an open policy is required to furnish evidence of insurance, an insurance certificate is used to show that insurance is in effect under an open policy. Thus the special policy covers a single shipment or certifies the existence of insurance under an open policy. In either case the certificate is a completely <u>independent</u> document.

A special marine policy may be prepared by the assured, by a freight forwarder, by an insurance agent or broker, or by the underwriting company. Because of its negotiable characteristics, it is important that it be made out carefully. The shipment should be described in such a way that identification is clear, particularly if more than one shipment is being sent on the same vessel.

C. <u>Amount of Insurance</u>

The marine insurance policy is a so-called "valued" policy, which means that when the ins[illegible] is taken out, a specific value is agreed upon. In the event of a total loss, this amount is paid. For a partial loss, a percentage of the total insured value is recoverable.

Many specific cost items are taken into account in arriving at the insured value: basic invoice cost, other charges on the invoice for packing, inland freight, consular and other fees, ocean freight, insurance premiums, and expected profit. Profit is derived by applying a percentage increase to the C.I.F. value (i.e., a "mark-up"). The usual practice in export trade is to insure goods for C.I.F. value plus ten percent. This percentage is viewed as an average margin to compensate the foreign buyer, in the event of a loss, for the profit expected on a resale of the goods, or if no resale is involved, to compensate him for losses incurred due to the necessity for replacement.

When a shipment involves goods with fluctuating values, (e.g., such basic commodities as coffee, sugar, and cotton) the buyer may want protection for an increase in market value during the time the goods are in transit. Protection of this nature can be obtained through the use of an "increased value" clause, under which the premium is paid and losses adjusted on the basis of the highest value reached during transit.

D. The Insured Perils

The risks or perils against which marine insurance protection is afforded are defined in the policy.

1. Basic Perils

a. Perils of the sea

These are fortuitous events and casualties.

Included are storms (i.e., unusual wind and wave action or so-called "heavy weather"), collision, stranding, lightning, damage by seawater when caused by insured perils, and other perils peculiar to the sea or to a ship at sea which could not be foreseen and guarded against by the carrier as necessary or probable incidents to the voyage.

b. Fire

Included herein are direct fire damage and indirect damage caused by smoke, or due to attempts to extinguish a fire, such as water damage. Strictly speaking, fire damage to cargo caused by its own spontaneous combustion is not covered, for such fire is due to the inherent vice or natural properties of the cargo, and is considered in the category of inevitable losses. The underwriter does, however, cover loss or damage by fire arising from the spontaneous combustion of other cargo in the vessel.

c. Thieves

This peril covers only loss or damage by assailing thieves, which refers to a forcible taking rather than clandestine theft or pilferage. If coverage for theft and pilferage is desired it must be specifically included in the policy.

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d. Jettison

Jettison is the throwing of articles (e.g., cargo) overboard, and usually occurs as a measure to protect the ship and cargo from loss when a common danger arises.

e. Barratry

Barratry refers to the purposeful misconduct of the master or crew of the vessel and includes theft, wrongful conversion, intentional casting away of the vessel, or any breach of trust with dishonest intent.

f. "All other perils"

In addition to the above named perils, the basic perils clause also covers "all other perils." These refer to perils similar to those already mentioned, i.e., perils of the sea, and do not mean "all additional risks" as the term is sometimes used. Where additional risks or perils are needed in the policy they must be specifically agreed to with the underwriter when the insurance is effected.

2. Other Perils

Other perils are included in the policy, which represent extensions of coverage added to the basic perils clause.

a. Inchmaree clause

This extends coverage to include loss resulting from a latent defect of the carrying vessel's hull or machinery. This clause renders underwriters liable for loss or damage directly caused by :

(1) Negligence of master, officers, crew, or pilots (including errors of navigation and management of the vessel).

(2) Accidents in loading, discharging, or shifting cargo or fuel.

(3) Explosions on shipboard or elsewhere (except those caused by war perils).

(4) Bursting of boilers, breakage of shafts, or any latent defect in the hull or machinery.

(5) Breakdown of or accident to nuclear installations or reactors on shipboard or elsewhere.

(6) Contact with aircraft.

b. Other hazards

Finally, the coverage may be extended to take account of hazards faced by goods while on land. The so-called "shore clause" includes risks of collision, derailment, overturn, windstorm, earthquake, sprinkler leakage, flood, and collapse of docks or wharves.

3. Additional Perils

The additional perils which may be covered by transportation insurance are varied. These must be specifically provided for in the policy and require that additional premiums be paid. The need for such coverage will depend upon the type of product being shipped and its susceptibility to various kinds of damage, the desire of the assured to be covered, and his willingness to pay the added premium. Included in this group of perils are such extraneous risks as theft, pilferage, non-delivery, fresh water damage, sweat damage, contact with other cargo, breakage, and leakage.

a. "All risks" coverage

Very often, coverage is provided under an "all-risk" set of conditions. Such coverage is not quite as all-inclusive as might be inferred, since it includes only physical damage or loss from external causes and specifically excludes war risks and strikes and riots unless covered by special endorsement or separate policy. Moreover, an all-risk policy may expressly exclude certain types of damage or not cover losses unless they amount to a certain percentage of the agreed value.

b. Losses from strikes, riots and civil commotion

An essential part of the shipper's insurance needs is coverage for losses arising from strikes, riots, and civil commotion. Usually handled as an endorsement to the policy, coverage is extended to give protection for damage, theft, pilferage, breakage, or destruction directly caused by strikers, locked-out workmen or persons involved in labor disturbances, riots, or civil commotions. Destruction or damage to the insured property directly caused by persons acting maliciously is also included. Not covered, however, are delay, deterioration or loss of market, or loss arising from warlike conditions.

c. War risks

War risk coverage usually is handled as a separate policy in the United States. In general, it covers risks of capture and seizure, destruction or damage by warlike operations, civil wars and insurrections, or in the application of sanctions under international agreements. Excluded from this coverage are delay or loss of market and loss or expense due to detainments, nationalization by government, or seizure under quarantine or customs regulations.

d. Risks excluded

Since insurance protection is intended to cover physical loss or damage arising from external causes, certain risks also are excluded, even under an all-risks policy. Generally speaking, the following losses are excluded, although some exclusions can be modified by agreement between the assured and underwriter and with payment of additional premiums.

(1) Loss of market and loss, damage, or deterioration which is due to delay.

(2) Ordinary and unavoidable loss of weight caused by evaporation.

(3) Ordinary and unavoidable wear and tear caused by normal usage.

(4) Loss arising from inherent vice, which is an internal, rather than external, cause of damage. Such loss is due to the nature or condition of the goods shipped.

E. Extent of Coverage

The loss caused by perils which are covered by the policy may be divided into total losses and partial losses.

1. Total Loss

A total loss may be an actual total loss or a constructive total loss.

a. Actual total loss

An actual total loss, which is a material and physical loss of the goods insured, usually involves little difficulty in making a claim. Since the insurance policy is based on agreed value, payment for total loss is for the full amount stated in the policy. Examples of actual total loss are:

(1) Where the goods are destroyed.

(2) Where they lose their species--i.e., when goods arrive so damaged so as to cease being the object insured.

(3) Where the assured is irretrievably deprived of possession, as when a vessel is captured in time of war.

b. Constructive total loss

A constructive total loss, which may be considered to be a commercial or economic loss rather than a physical loss, occurs when the expense of recovering or repairing the goods would be greater than their value after such expenditures. Under certain conditions, if there is a salvage value of the goods subject to a constructive total loss, the underwriters may, by agreement, take such value into account, and make payment to the assured upon a net basis. Otherwise, full insured value is paid and the underwriters dispose of any salvage for their own account.

2. Partial Loss

The extent of coverage for partial loss is determined by the "average" terms. There are two broad types of average losses--particular and general: A particular average is a fortuitous loss which affects specific interest only. It is any form of partial loss or damage to the ship, freight, cargo, or other interest, caused by any of the insured perils. In contrast, a general average loss affects all cargo interests on board the vessel as well as the ship itself.

a. Particular average

Particular average losses may take the form of total loss of a part of the goods, or arrival of the goods in a damaged condition, or both. Losses must be fortuitous or accidental.

(1) "Free of particular average"

The most restrictive form of coverage in common use is "Free of Particular Average" (FPA). Under FPA coverage, in addition to total losses, partial losses resulting from perils of the sea are recoverable provided that the carrying vessel has stranded, sunk, burnt, been on fire, or been in collision. (This is "Free of Particular Average, English Conditions," or FPAEC. "Free of Particular Average, American Conditions," or FPAAC is more restrictive, allowing recovery only if the loss is actually caused by one or more of the above-named perils.) Partial losses caused by other perils are not recoverable.

(2) "With average"

A more inclusive form of protection is "With Average" (WA) coverage. Such coverage protects against partial damage by sea perils, if the damage exceeds a specified minimum percentage (typically three per cent) or more of the value of the entire shipment. If the vessel has stranded, sunk, been on fire, or in collision, the minimum percentage requirement does not apply and losses from sea perils are recoverable in full. Other named perils may be added to the WA clause, e.g., theft, pilferage, and nondelivery.

b. General average

A general average loss is one that is deliberate and voluntary and results from an intentional sacrifice or extraordinary expenditure engaged in or incurred by the master of a vessel in time of general peril for the benefit of both ship and cargo interests. The object of the general average loss must be the preservation of a part of the venture. Sacrifices or expenses made or incurred for the benefit of individual interests are not general average losses. A classic example of a general average loss is jettisoning of cargo to lighten a stranded vessel.

Where there has been a general average act on the voyage, all interests at risk which have been saved from loss by the measures taken are obligated to contribute to make good the sacrifices or expenses. These interests, which include ship, freight, and cargo, contribute in proportion to their net values at the destination point or at the point where the voyage is abandoned. It is important to note that those whose cargo was sacrificed also contribute to the loss. Thus, the principles underlying adjustment of general average are equitable to all parties involved. The risk of sustaining losses as a result of participation in a general average loss adjustment is nearly always present in ocean carriage. It is important that this risk be covered by insurance.

F. Air Cargo Insurance

In regard to questions of insurance, air transportation differs considerably from other forms of carriage, particularly with respect to freight.

Air cargo, in addition to the air movement, is usually handled by at least one other mode of transportation. This cargo has also some of the characteristics of express, e.g., high value commodities which must be expedited to their destinations. Furthermore, liability conditions surrounding air carriage are not the same as for other modes of transportation. Pertinent statutes do not specify air carrier liability nor do they place any restriction on the extent to which they may contractually limit their liability (i.e., via the air waybill or bill of lading). Common carriers by air are therefore governed by common law liability and by general statutes which apply to all carriers.

The general categories of hazards to which air cargo may be exposed are damages resulting from turbulent flights (cf. heavy weather in marine insurance policies); loss and damage due to crashes (cf. stranding and sinking); damage from cold and low air pressures at high altitudes; and loss and damage during surface transportation and temporary storage.

Air cargo insurance is often written on an all-risk basis in contrast to insurance for other modes which covers specified perils (cf. marine insurance policies). Similar to coverage included in marine insurance, air cargo policies may contain clauses to cover general average losses and to exclude war risks. Unlike ocean carriers, however, airlines often have arrangements whereby they obtain insurance for their shippers.

VI. DOCUMENTATION

A. Introduction

The importance of complete and correct documentation cannot be over-emphasized. Just as the lack of passports, visas, and other travel documents can impede the free transit of visitors between countries, so will improper and insufficient documents interfere with the ready movement and free flow of international shipments. Overseas traders are, therefore, cautioned not to take lightly the importance of documentation, as excessive, incomplete and incorrect documents may cause grief, expense, delays, and loss of time to those involved in domestic trade and transportation.

Following extensive efforts by the Department of Transportation to simplify international shipping documents, member nations and cooperating agencies of the Economic Commission for Europe (the United Nations agency responsible for international documentation simplification) recently ratified the "U.S. Standard Master for International Trade." This is the format for a standard international shipping document, which has the capability of significantly reducing paperwork in moving single shipments of cargo from inland points to foreign destinations.

The U.S. Standard Master for International Trade is considered capable of acting as the framework for all specialized documents that are now required by any nation and for any mode or combination of modes of transportation. The document format is the result of close cooperation between the Department of Transportation and a number of other government and industry interests, including the National Committee of International Trade Documentation and the San Francisco Marine Exchange. A number of associated export forms have been redesigned to align with the new standard format; among them are bills of lading, delivery instructions, arrival notices, dock receipts, insurance policies, certificates of origin, shippers' export declarations, drawback applications, government bills of lading, shippers' letters of instruction (for air), and commercial invoices. Use of the U.S. Standard Master is not limited to the forms named. It may be used as the format for any other forms related to any shipment--export or import, domestic or international, breakbulk or container, intermodal or single mode.

The following discussion presents an overview of principal documentary requirements for exports and imports. International traders are urged to seek assistance from governmental and non-governmental agencies such as Department of Commerce field offices, foreign freight forwarders, customshouse brokers, banks, etc. for detailed knowledge of current documentary requirements of various countries.

8. [illegible]

A set of appropriate commercial documents represents ownership or similar valuable rights to goods moving in foreign trade. They entitle the exporter or legal holder in due course to goods at destination. In the event of loss or damage, compensation by insurance is received instead. Since documents may represent substantial values, it is important that proper documents be obtained and correctly prepared to insure that full and unrestricted title to the goods is conveyed.

1. Basic Documents

a. Seller's commercial invoice

The invoice is a record of transactions between sellers and buyers. This document is of importance to any third party who may have an interest in or a need to determine the value of a shipment. In certain countries the commercial invoice is sufficient for customs purposes, but in others a consular invoice or a certificate of origin must be produced for appraisal and entry of goods. Countries accepting the commercial invoice as a basis appraisal may insist that the description of the goods on the commercial invoice coincides with the corresponding category or description of their active Customs tariff.

Basically, the commercial invoice must provide all details necessary for the proper description of the merchandise, packed and unpacked, as well as the terms of sale. The invoice thus incorporates all the essential facts about the shipment and serves managerial rather than legal or formal purposes.

b. Bills of lading

(1) Functions

Three basic functions are performed by the bill of lading. First, it serves as a receipt for shipments delivered to a carrier for subsequent transportation. Second, the bill of lading is a contract of carriage between the carrier and the shipper, and as such sets forth the conditions under which the goods will be carried. These conditions include statements of the liabilities and duties of the parties to the contract (i.e., of the carriers and the shippers), the person to whom the goods are to be delivered, and the amount of the freight charges to be paid as well as when and by whom. Third, the bill of lading is evidence of title to the goods described therein.

(2). Negotiability

Bills of lading may be negotiable or non-negotiable. The order bill is a negotiable instrument and title to the goods may be transferred by proper endorsement. It is frequently used to secure payment for the goods at destination. A straight bill, on the other hand, is non-negotiable and only the consignee named in the document has the right of ownership to the goods specified in the bill of lading.

(3) Issuance

It is the duty of the carrier to issue bills of lading; however, the actual preparation of this document is often carried out by a freight forwarder or shipper on forms provided by the carrier.

(4) Usage

Although uniform conditions for bills of lading are constantly being strived for, such uniformity has not yet been achieved. Therefore, it is important that the overseas trader reviews the particular bill used by the carrier in order to have complete knowledge of the conditions attached to the transportation of his goods.

Generally, carriers or their agents only deliver goods covered by a duly signed or endorsed order bill. Similarly, Customs considers holders of a properly endorsed bill of lading to be the owner of the imported goods and such common carrier bill of lading the best evidence of the right to make entry. Some countries require validation of the bill of lading by their consul at the place or port of shipment to give official proof as to the accuracy of the specified merchandise.

c. Consular invoice

Invoices are not required by all countries and are not uniform for countries which require them. Consular invoices must be prepared in the currency of the country from which the goods are shipped and must contain full details and description of the goods exported. They serve as evidence of the shipper's or owner's declaration of value of the shipment. Consular invoices are certified by the consul of the country to which shipment is destined. They must show, in addition to details of the goods themselves, all discounts and rebates. The consular invoice facilitates customs work at destination, expedites collection of taxes, and serves statistical purposes. The shipper forwards copies of the consular invoice to the importer, who presents them to Customs when he declares his goods. It is important that arrival of the importer's copies coincides with arrival of the goods; delay in receipt of documents may be penalized by Customs of the importing country.

In some cases the consular invoice may be simply a copy of the commercial invoice but written in the language of the recipient country. More often, however, consular invoices are complex documents with very stringent requirements for accuracy in preparation and subject to excessive changes by the consul.

d. Marine insurance certificate

An insurance certificate confirms that the shipment described on the certificate is insured subject to the insuring clause or terms of a given Open Cargo Policy (or Floating Policy). The certificate does not contain all of the clauses appearing in the Open Policy, but does contain the important clauses. In cases where the buyer desires a complete insurance contract from the seller, he usually stipulates for a "policy of insurance, other than a certificate." In such cases, special trip risk policies are issued, which are complete contracts by themselves. Certificates or special trip risk policies may be negotiable instruments and acceptable by banks when properly endorsed.

Marine insurance is required to protect the cargo against perils of the sea and other risks for which the ocean carrier is not liable. Similar insurance is available for air carriage.

2. Additional Documents

Depending on the recipient country's particular requirements and other conditions governing the export of commodities, the types and numbers of additional documents needed in overseas trade will vary. Hopefully, with the anticipated success of simplification and consolidation attempts by various supra-national and national governmental and business agencies, the [illegible] and variety of basic documents, as well as additional documents, will diminish in the not-too-distant future.

The following documents represent the common additional requirements that [illegible] be needed for the successful transfer of goods in international trade. This list of documents is by no means exhaustive.

a. Shipper's export declaration

This document, which may be obtained from the U.S. Department of Commerce, is required by the government of the United States for export shipments valued at more than $250. It is used for the compilation of statistics on trade both with foreign countries and with U.S. territories and possessions, and it provides a practical means of implementing export-control regulations.

Merchandise is described on the export declaration in accordance with the various Schedules on "Statistical Classification of Domestic and Foreign Commodities Exported from the United States," issued by the Department of Commerce. The shipper or his agent files the export declaration with the carrier (or its agent), except in case of mail shipments, when the export declaration is filed with the Post Office.

b. Validated export license or permit

This document permits the export of a product or material. It is normally demanded when a government exercises control over its exports for any reason. These licenses may be of a general nature,, to cover exportation of certain commodities to

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given countries of destination, or individual licenses for specifically named articles to specific destinations. Reasons for the use of export licenses are: protection of the health or welfare of a nation, an industry, or agriculture, or other national production.

c. Seller's bill of exchange

A bill of exchange or draft is a written order for a certain sum of money, to be transferred on a certain date from the person who owes the money or agrees to make the payment (drawee), to the creditor to whom the money is owed (the drawer of the bill).

Bills of exchange or drafts are the most common methods of payment in international trade. These bills provide documentary evidence of obligation without requiring either exporters or importers to sustain the entire financial burden of the international shipment.

Acceptance of the draft represents an acknowledgement of the obligation. Use of this instrument facilitates international marketing by providing: (1) documentary evidence of an obligation that is readily transferable and (2) definite or determinate maturity of the obligation.

A draft with only a letter of instruction and no shipping documents such as ocean bills of lading, insurance certificates, etc., is known as a documentary draft. In international trade, the documentary type of draft is employed almost exclusively.

(1) Sight draft

The drawee is required to accept and pay the draft upon sight or presentation. This may mean that the draft will become payable prior to arrival of goods abroad. In some countries, it is customary for banks not to present the drafts until the goods for which the draft has been drawn have arrived.

(2) Arrival draft

Use of this document calls for payment on arrival of merchandise. It should be noted, though, that the absence of a definite or ascertainable maturity date renders arrival drafts non-negotiable in many foreign countries. Hence, it is better to use sight drafts together with instructions to banks to defer presentation of draft until arrival of goods.

(3) Date draft

This document calls for payment on a specified date, or a specified number of days after a given date. This type of draft is in no way tied to the actual movement of goods, and is considered rather rigid and inflexible.

d. Foreign exchange certificates

In certain countries special permission must be obtained in order to engage in transactions involving foreign exchange. Certificates or permits of this nature enable the holder to buy or sell goods abroad and to make or receive payments in foreign currency or in the currency of the country granting the certificate.

e. Miscellaneous documents

(1) Delivery permit

This permit is issued by a carrier, its agent, or a port authority for the purpose of authorizing export-destined cargo to loading piers.

(2) Dock receipt

This document may be issued at a port as an interim bill of lading, as documentary evidence of the physical transfer of goods from the shipper to the carrier. Observable damage to containers or contents, inaccuracies in quantities and numbers, and other irregularities, are noted on dock receipts following examination of cargo.

Tentative dock receipts are issued when shipments are delivered to the pier in increments. The temporary document is then exchanged for a standard dock receipt upon completion of "port-delivery" of the entire shipment. When goods are subsequently loaded on board ship, the dock receipt is replaced by a bill of lading.

(3) Certificate of origin

This certificate is demanded by a number of countries. The certificate of origin is required as a separate document, when inclusion of information as to the origin of goods on the consular invoice does not satisfy documentary requirements of the recipient country.

The certificate of origin seeks to determine the actual origin of the articles being exported in order to evaluate the propriety of their import by the receiving country (e.g., applicable tariff laws and other permissive or restrictive provisions).

Many local Chambers of Commerce perform services for their members in certifying as to the origin of the export shipments.

(4) Warehouse receipt

This receipt confirms storage of goods. It guarantees delivery of the goods on demand, (subject to Customs permits for release, in case of dutiable merchandise) from bonded warehouses. Hence, the receipt is evidence of ownership of the goods which may be transferred by endorsement to a third party. Therefore, warehouse receipts can be used both as collateral for loans and for the control and direction of deliveries.

C. Imports

Knowledge and appreciation of documentary requirements for imports are no less essential than for exports. The present discussion will be limited generally to documentary information for U.S. importers.

1. <u>Definition of Terms</u>

Before describing documentary requirements for importers, it may be helpful to review certain terminology related to imports.

a. <u>Ad valorem</u>

This term is used in connection with the assessment of duties on imported goods or commodities, based on their value, as opposed to "specific duties." <u>Ad valorem</u> assessments are usually expressed in percentages of the goods' value, e.g., 5% <u>ad valorem</u>.

b. <u>Anti-dumping duties</u>

These duties may be levied in addition to regular duties on dutiable articles. Such additional countervailing duties are designed to offset differences in merchandise prices between foreign market values and the prices charged for the same goods when sold for exportation to the United States.

c. Appraisal of merchandise

An evaluation of ~~imported~~ merchandise is made to determine dutiable or free status. Dutiable *ad valorem* determination requires appraisal of such merchandise in the manner designated by customs officials (e.g., ascertaining quantities of merchandise, accuracy of invoice, and description of merchandise for duty-levying purposes).

d. Bonded warehouses

Importers are permitted to delay payment of duty by deferring taking possession of imported merchandise. Hence, dutiable imports may be stored in bonded warehouses, which provide certain advantages corresponding to foreign trade zones (see below). Depending on the nature of the bonded warehouse, importers may be authorized to clean, sort, repack or otherwise change the condition of their merchandise while the latter is being held in bond.

Bonded warehouses are required to be under bond satisfactory to the Secretary of the Treasury. These warehouses are supervised by a Customs Officer who shares custody of all stored merchandise with the proprietor subject to detailed customs regulations.

Withdrawal of imported merchandise from bonded warehouses is normally authorized for consumption (upon payment of import duties and accrued charges), for transportation and exportation, or for transportation and warehousing at another port.

e. Customs values

For imported goods (subject to duty on an *ad valorem* basis) the following definitions of values apply.

(1) Export value

This is the value or price of the goods (at the time of exportation) packed ready for shipment to the United States, "at which such or similar merchandise is freely sold or offered for sale in the principal markets of the country of exportation, in the usual wholesale quantities and in the ordinary course of trade for exportation to the United States." Use of foreign value (also referred to as alternative value) duty determination is now limited to special exceptions as specified by the Secretary of Treasury.

(2) United States value

This value is equal to the price (at the time of exportation to the United States) of merchandise at which such or similar merchandise is freely sold or offered for sale in the principal markets of the United States for domestic consumption, packed ready for delivery, in the usual wholesale quantities and in the ordinary course of trade, with all allowances made for various expenses such as commissions, transportation, insurance, custom duties, and taxes.

(3) Constructed value

This is the sum of cost of materials and fabrication at time preceding date of exportation, which would normally allow the production of that merchandise in the ordinary course of business plus general expenses and profits usually charged, plus cost of containers and all other expenses incidental to preparing merchandise for shipment to the United States.

(4) American selling price

This price may be applied in certain cases to equalize costs of production when the rates of duty do not afford such equalization. The American selling price is generally the wholesale price that normally applies, if such imported goods were sold for domestic consumption in the ordinary course of trade at the time of exportation to the United States.

f. Drawback

This term is applied to total or near-total reimbursement of customs duties paid on imported merchandise which is re-exported or which is incorporated in a finished article destined for export. Hence, drawback is the refund or restitution of any duty paid or any tax levied. The general purpose of the drawback is to equalize the competitive position of the domestic producer in export markets with that of his foreign rival. The time limit for obtaining drawback is three years from date of importation.

Certain imported articles when not imported for sale or for sale on approval may be admitted into the United States without payment of import duties; for example, samples of merchandise for taking orders. Drawback provisions do not apply on such exempt articles.

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g. Import duties

These are taxes or fees assessed on goods passing into a country. Duties are usually assessed on either an ad valorem or a specific basis.

h. Import license

This document permits the import of merchandise into a country where such licenses are required. Import licenses vary for different products and different countries. Their issue depends on the needs or requirements of a government that may wish to restrict or control importation of any given article.

i. Import quota

For certain goods the volume of imports may be restricted. Import quotas affect the amount of duty payable on such imported products. After the predetermined volume of imports is reached, additional imports during a designated period of time are subject to higher rates of duty.

There are other quota provisions that restrict the absolute quantity of certain products to be imported during a given annual period of time.

j. Pro forma invoice

This is applied to a skeleton invoice, which is usually sent in advance of the regular invoice for the Customs clearance of goods. The purpose of the pro forma invoice is to acquaint the importer and government authorities of impending imports with approximate weights, quantities, and values of the merchandise being imported. Pro forma invoices assist foreign buyers in obtaining an import license.

k. Specific duties

Taxes or fees levied, or calculated, on the basis of weight, measurement, gauge, or other measure of quantity (e.g., so much per unit of weight) are known as specific duties. Such duties are in contrast to ad valorem duties, which are levied according to value.

2. Entry

All arrivals of ships at an American port (from a foreign country) must be reported by the master of the nearest customshouse within 24 hours. Formal entry of the ship must occur within 48 hours. Similar customs arrangements, but with accelerated time schedules, are made for international aircraft.

a. Entry of merchandise

Entry of merchandise involves procedures necessary for clearing imported items through U.S. Customs and certain documents necessary to obtain possession of such goods. It should be borne in mind that, although customs officers will assist importers, actual entries of the goods must be made by the importer or his agent. Generally, such entries are handled by customshouse brokers working on behalf of the importer. These brokers are knowledgeable in their field to the extent that they can handle the entire customs transaction and secure release of the merchandise by customs officials.

b. Obligations of the consignee

Entry requires the consignee to declare the value of the imported goods, to indicate the rate of duty (if any) and tariff classification of the merchandise, and to designate the manner of disposal of the goods. In the event an imported shipment has been sold or quoted in foreign currency, the entry must report the value in dollars according to the daily conversion values of foreign currencies published by the Federal Reserve Bank of New York as of the date of exportation.

c. Types of entry

(1) Consumption entry

This entry designates the consignee's intent to dispose of imported merchandise domestically. Under this type of entry, a deposit is made at the customshouse equal to the amount of estimated duty. Adjustment in duty payment, so as to correspond to the exact amount required, is subsequently made.

(2) Transportation entry

This permits merchandise arriving at a particular U.S. port to be transported (in bond) to other points of entry. This type of entry is also known as an I.T. entry (immediate transportation in bond).

(3) Exportation entry

Merchandise which is re-exported from the port of arrival in the United States is entered under this method.

(4) Drawback entry

This is used in connection with claims for drawback of duties paid on merchandise originally imported into the United States and then re-exported, perhaps as an integral part of another product produced in the United States.

(5) Warehouse entry

This permits goods to be placed in a bonded warehouse, with payment of duty deferred until such time as merchandise is permanently removed from warehouse.

3. Documents Required for Entry and Release

The importer enters the merchandise and obtains release of goods by filing the following documents. In the event any of these documents are missing, the posting of bonds is required.

a. Special customs invoice

If the value of the goods for which entry is sought exceeds $500.00, and provided duty is assessed on *ad valorem* basis, filing of a special customs invoice is normally required. This type of invoice is not required when shipments are free of duty or when subject to a specific (not *ad valorem*) duty. The commercial invoice or *pro forma* invoice may be acceptable as a substitute.

b. Bill of lading (or air way bill)

See discussion under Export Documentation (above).

c. Consignee's declaration

Every consignee of imported merchandise must file a declaration specifying whether the goods are imported in pursuance of a purchase or an agreement to purchase, or whether otherwise imported. The declaration must further certify that prices and all other data contained in the invoice are correct.

4. Additional Documents for Entry and Release

Certain additional documents are frequently used in connection with seeking entry and release of imported merchandise.

a. Analysis of inspection certificate

This document may be required in connection with certain kinds of goods. It testifies to prior analysis or inspection of goods. This document may be requested by an importer for his protection. The U.S. Government demands such certificates on certain imports related to health and public welfare (e.g., cosmetics, drugs, and food products).

b. Carrier's certificate and release order

In instances when the imported merchandise arrives in the United States ahead of the necessary import documents, release may be obtained for the goods through the use of Carrier Certificate and Release Order forms. These are issued by carriers on bank guarantees given on behalf of the importer or on the basis of bonds arranged by the importer.

VII. EXPORT PACKING, PACKAGING AND MARKING

Understanding of adequate packing and packaging methods is necessary in maintaining foreign markets. Goods prepared for shipment abroad must be adequately packed in order to give reasonable assurance of their safe arrival at the ultimate destination.

A. Basic Considerations

Generally, packing considered to be sufficient for domestic shipping is not strong enough to withstand the rigors of export shipping.

1. Factors

There are more handlings in export shipping than in domestic shipping, and these handlings often occur under less favorable conditions. Some of the factors relevant to the many handlings of export shipments are listed below.

a. Assembling and packing

The quality of assembling and packing merchandise at the producer's plant itself must be considered.

b. Loading

Loading, stacking, hauling, etc. involved with

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rail or truck transportation to the port are important factors in determining propriety of preparing goods for shipment.

c. Handling

Preparation of goods for shipment also depends on the type of handling goods are subjected to while they are in warehouses, at ports, and under the control of loading and discharging carriers.

d. Movement

The rigors involved in the on-movement of goods in the foreign country of destination, e.g., rail, truck, or barge, must also be evaluated.

e. Customs processing

The nature of customs processing to which goods are exposed by the country of import affect preparation.

f. Climatic effects

The effects of different climatic conditions, including changes in temperature and humidity, must likewise be considered in assessing appropriateness of preparation.

2. Special Problems

Some of the special problems associated with export packing are water damage, breakage, theft and pilferage. Recent insurance statistics indicate that, as a percentage of total claims for losses by foreign traders, these causes represent approximately 13%, 19%, and 20% respectively. Therefore, adequate packing techniques are important.

3. Legal Considerations

Legal aspects must also be considered when packing for international shipment. The packing of many commodities (e.g., coffee bags, tea cases, and cotton bales) exported from developing countries is subject to specifications in detailed international agreements, and many shipping lines will refuse these goods if packed otherwise. Packing of dangerous goods is also subject to complex rules which must be followed.

4. Two Basic Rules

Two basic rules apply to export packing. First, the exporter should solicit from his customer complete specifications for packing his order, what climatic conditions it must withstand, and the manner in which duties will be levied on the shipment. These instructions should be supplemented with advice from steamship companies, insurance underwriters, export freight forwarders, official reports and, if necessary, special exporting consultants.

Second, exporters should test the strength of various styles of packing before shipping. Customers should be asked to furnish information regarding the condition in which past shipments have been received, and tests made accordingly.

5. Packing Requirements

The question of the "how" of packing needs to be thoroughly examined. Export packing requires casings strong enough to withstand shipping hazards such as pilferage, rough handling, dampness, corrosion, and crushing weight, while being small or light enough to obtain lowest shipping rates. In addition, packing to insure the lowest possible customs duties at the receiving end is a complex task.

B. Packing for Export

1. Unit Loads

A very important concept in planning export shipments is "unitization." Large loads are less likely to be damaged than smaller ones, and may also result in lower freight charges per unit of shipment, i.e., shipping expenses tend to be less when the merchandise is packed so that it can be handled mechanically. The unit load may take several forms, and it may be prepared either by the producer or the exporter, or by an export packer or freight forwarder at the port. In the latter case, goods are taken off the domestic packing line and sent to the port as a routine domestic shipment with some savings in shipping and packaging costs on the initial inland journey being realized. The shipment is then consolidated into a unit load for shipment by the export packer.

A unit load may consist of individual domestic containers placed inside a cleated plywood, nailed wood, or other suitable export case. Or it may be made up of a number of domestic containers which have been palletized and which, therefore, require mechanical handling. Another approach which is increasing in popularity is so-called "containerization," which involves the use of large, uniform, metal containers for which special mechanical handling facilities have been designed.

a. Pallets

The pallet load is one of the most important and simplest forms of the unit load. By packing goods on pallets so that they can be handled mechanically at every stage in the transport and distribution chain, costs can be substantially reduced, and the risk of damage and pilferage is less. Most shipping conferences give a freight reduction for palletized traffic, amounting to between 5 and 12 percent according to the trade. Not only do pallets lend themselves to door-to-door, through transport, but their size facilitates in-plant movement. The pallet may start its journey at the end of the assembly line, travel intact, and come to rest in a final buyer's warehouse.

Pallets may be of standard size, or designed according to specifications of the exporter or the buyer. Compared to containers, pallet loads are much smaller. Thus, the equipment needed to handle them is much less sophisticated and less expensive. The most economical pallet load is four to six feet tall, weighing between 1 and 2½ tons, and can be lifted by fork-lift, pallet-truck, or jack-truck.

Wood is the most common material used for the construction of pallets. There are a number of steel pallets as well, and there is growing interest in pallets manufactured from plastic and cardboard. Pallets may be through-pallets (re-usable) or one-way (throw-away) pallets.

The so-called through-pallet is one that completely fulfills its intended function, that is, it follows the merchandise from the production line through all storage and transportation operations to final delivery. This pallet must do service in a number of external and internal operations and must, therefore, be durable.

To obtain full utilization of a through pallet, it is important that a shipper attempts to make sales on the basis of complete pallet loads. A pallet load, of course, need not be composed of only one item; it may be a mixture of different products as long as they can be placed together on a pallet.

The one-way pallet, on the other hand, is made of rather scanty wood or cardboard, and is designed to last for only one trip. It is often designed as an integral part of the package and is disposed of when it has served its purpose.

b. Containerization

Containerization is the most important development in unit loads in recent years. Containers manufactured from heavy steel, aluminum, or plywood, are now available for shipments to many parts of the world. They are large enough to receive shipping units of considerable size, but constructed so that they can be safely stowed either on deck or between decks of the average ocean vessel. Some are designed for attachment to chassis for movement as semi-trailers on land; others move as complete semi-trailers in roll-on, roll-off operations. Steamship lines now provide containers to shippers, and pick-up and delivery within reasonable distance of steamship terminals. There are, in addition, intermodal agreements which provide through-container service from inland point to inland point.

C. Packaging for Export

Many factors enter into the packaging decision of a particular product for export. A number of questions are related to the nature of the product. Is it breakable (e.g., bottled goods, glassware, machinery)? Is the product subject to humidity (e.g., hygroscopic goods, such as arrowroot, paper, or potatoes)? Is the product subject to taint (e.g., certain foodstuffs, paper, cork, cigarettes and cigars, which are susceptible to being tainted by contact with other cargo)? Is the product subject to vermin (e.g., flour, grain, skins, or nuts)? Is the product subject to pilferage? Questions such as these provide a starting point in selecting a package in which to export a particular product.

1. Types of Packages

a. Corrugated boxes

These packages have improved greatly in recent years and can now be used to ship many products overseas.

It should be emphasized with regard to the use of corrugated cartons for export shipping that only those especially designed for export purposes with high bursting and wet strength should be used. Of all containers which fail in foreign commerce, the normal domestic type of corrugated container is probably the worst offender. With its lack of stacking strength, ease of puncture, susceptibility to moisture, and the fact that the load must support the box, it is generally unsuited for export use. Corrugated boxes with a bursting strength of less than 275 pounds per square inch should never be used for overseas shipment.

Triple-wall corrugated boxes are strongest and even have one advantage over wooden boxes: they are more resilient and cushion the contents against shock. Under certain weight conditions, corrugation is equal to one-half inch of plywood. Corrugated boxes can be strengthened by wood framing. Reinforced tape or a full glue flap at top and bottom should also be used. Whenever possible, an exporter should insure a tight pack in the corrugated container in order to prevent "cannon balling" of one item against another.

There is, however, a relatively high potential for pilferage from corrugated boxes. Some guidelines to prevent this are:

(1) Load and interior packing

Make certain that the load and interior packing support the container walls to prevent collapse and subsequent invitation to pilferage.

(2) Strapping

Employ strapping around the girth and over the ends, so that if the container fails the contents may remain intact.

(3) Sealing of flaps

Make certain all flaps are fully glued so that pilferage can be accomplished only by destruction of the case.

(4) Burlap overwraps

Avoid burlap overwraps which can easily be pilfered and then sewn, leaving little sign of having been disturbed.

b. Plywood boxes

Plywood boxes are gaining in popularity as export packages. They give excellent protection against punctures, are able to support heavy stacked loads on top without collapsing, and are virtually pilfer-proof. The increased use of plywood began when shippers realized that package strength was properly placed in the framing, not the skin. By using plywood instead of slatted wooden boxes, both weight and cube are saved.

Another advantage of the plywood box is that it can be waterproofed at the joints and easily lined with moisture barriers.

c. Wooden crates

Wooden crates may be open or fully sheathed, and are best for heavy and bulky objects. Framing must be heavy enough to withstand the pinching effect of slings. Some exporters have found it profitable to ship large objects, such as refrigerators, in open crates sheathed only in a transparent polyester shroud. The handler can then see what is being moved and can give it the required care.

In regard to wooden boxes in general, and where the product permits, pack individual items in such combinations as to create a container large enough to preclude casual manhandling. This is a major step toward eliminating container failure through mishandling, and subsequent pilferage.

d. Wirebound boxes and crates

The wirebound container, a very old freight-packaging technique, is emerging today as an important means of containing and protecting cargoes for export. Its primary advantages are durability, low cost when mass produced, and light-weight. Wirebounds, however, should not be used for goods that will be damaged if the box is slightly twisted out of shape. Wirebound containers lend themselves easily to mass production. Once a container has been designed for a particular item, it can then be manufactured in large quantities for delivery in knocked-down form and readily assembled. Mechanical wirebound assembly can also be built into the regular assembly line process. However, they are seldom the low cost choice for exporters who require, and have, storage space for quantities of less than 50 knocked-down crates of the same design.

Regarding theft and pilferage, interior packing which conceals the nature of contents should be used. Twisted wire closures which must be cut or broken in order to opened should also be employed.

e. Multiwall bags

While these bags have proved themselves useful in domestic shipping, they face additional problems when used for export. Foreign stevedores, accustomed to burlap bags, tend to seize multiwall bags by their "ears," with subsequent tearing and spilling. When goods are such that they must be shipped abroad in multiwall bags, the remedy for this problem is palletization.

f. **Bales**

Bales transport well, but are easy to pilfer and are apt to be damaged by hooks and water. They should be wrapped in waterproof covering, and ears should be provided on the corners of small bales so that they can be handled without hooks. Bales weighing over 300 pounds are likely to be hooked. At least four tension bands should be used around each bale to give it strength.

With respect to pilferage, it is sometimes recommended that a maximum number of straps be used to make extraction of an item difficult because of the pressure. Colored twine closures can also be used, which makes re-sewing difficult and increases the chance of detecting pilferage. On routes where pilferage is known to be high, wire mesh can be employed between the burlap outer wrap and the steel strapping.

2. Theft and Pilferage

There are some general guidelines applicable to all types of containers which help minimize theft and pilferage. First, the use of second hand materials should be avoided. Initial container strength has often been lost. Old marks, signs of nail pulling, and other handling scars also make concealed pilferage hard to detect. Second, load limits not exceeding those recommended for export should be used.

This tends to minimize shipments which have been weakened by over-loading and are, thus, ripe for pilferage and other damage. Third, study the possibility of palletizing and using cargo shipping containers. When either system can be used continuously, and preferably door-to-door, theft and pilferage are greatly reduced. Fourth, when steel strapping is used, consider employing embossed strap seals carrying some identifying code, so that if straps are opened and then re-sealed it can be detected.

3. Water Damage

There are also some helpful guidelines to reduce this problem. Special chemical rust inhibitors which may be applied to metal surfaces are available. Some dry to a hard protective coating that can be easily stripped off, while others must be cleaned off with solvent. Some type of barrier material, resistant to water and which can be sealed with water-proof tape can also be used. One caution with regard to water-proof barrier material is that it should not be used with products that themselves give off moisture. There are also desiccants which absorb water. If put inside a container, which also has a barrier material protecting it, they absorb any water that might be inside already. Desiccants are especially useful with non-metalic goods that cannot be coated directly with inhibitors. Volatile corrosion inhibitors are also available. They do the same job as inhibitors, by giving off a vapor that protects surfaces from water damage.

4. Packaging for Air Shipment

The rapid growth of air transport has raised many special questions with respect to packaging air freight. The main packaging factors to be considered are weight, strength, dimension limits, and weather resistance. Because of the high cost of air freight, the weight factor is probably the most important.

One point to note is that air shipments often have to withstand wide variations in climatic conditions which must be guarded against.

Generally, less robust materials and methods for packaging of air freight may be used. Some goods which are fragile and require special handling may be carried on a flat pallet or in a skeleton crate with only a plastic covering for protection. Lightweight packing materials are usually less costly, and less material is generally used. Thus, considerable cost savings can result. In some cases, savings on the packing of sophisticated products more than pay the difference between the costs of surface and air freight.

However, more consideration must be given to the possibility of crushing very lightly packed merchandise.

D. Marking and Labeling

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Care and attention to maintaining clear and durable marking and labeling, together with proper packing, helps to eliminate damage and loss of goods during loading and unloading, insures that goods get speedier clearance through customs, and enhances the reputation of the exporter with foreign buyers.

Steamship and railroad companies may not accept freight unless it is legibly marked with the city of destination along with the country of destination. It is important, also, that each package be identified with the marks and numbers appearing on the commercial invoices and other export documents. A record should be kept of the numbers used and a different number should be given to each order.

1. Labeling of Individual Packages

Customs regulations pertaining to the labeling of various kinds of imported goods are detailed, definite, and strictly enforced. Most countries, following the lead of the United States, require goods to be marked with the name of the country of origin. Frequently, customs regulations of foreign countries require that the quantity and measurements of goods be marked on the outside of packages. Fines and penalties are assessed for violations of these regulations. These are especially heavy if customs officials feel that violations are deliberate. These

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extra costs are imposed on importers, but most importers insist that exporters make restitution, resulting in delay, ill-will and additional costs.

Customs regulations of most countries also are strict with regard to the labeling of individual packages. Exporters can protect themselves by carefully examining the regulations of the country of destination. Again, heavy fines may be incurred by mislabeling. It may be useful to solicit labeling instructions from consignees, and to follow these carefully.

The consignee may also have particular requirements for labeling. He may, for example, require additional marks on his shipments to enable the particular cargo to be recognized by authorized personnel only and selected from others arriving at a busy port. Marks may also be required to allow a particular package to be singled out for purposes of sampling, repacking, expediting by express, or warehousing. Quite commonly, marking is used to aid in forwarding and distributing when an importer is supplying identical containers of merchandise to different buyers.

2. Marking of Outside Containers

Marks and labels put on the outside of containers should be large enough and legible enough to ensure that shipments reach their destination. More specifically, it is recommended that each package be boldly marked in water-proof and salt-proof ink on at least two sides. These markings should be in the languages of the exporter's country, the transit countries, and the country of final destination. Again, specific requirements for specific countries can be found in various exporter's handbooks, or by requesting marking instructions from consignees. Some countries may have detailed requirements concerning the size of lettering, its position on the container, the method of applying marks (brush or stencil), the system in which weights and measures must be given and the like.

3. Other Marks

Other marks which exporters may want to use include hallmarks for precious metals, marks relating to quality and standard, date marks on perishable products, and special marks for explosive and other dangerous materials (normally required by law). In shipping goods that may attract pilferers, exporters may want to use "blind" marks which will not give away what is inside a package. Exporters should be careful in using trade descriptions with regional connotations on labeling (e.g., English walnuts, Spanish onions, Roquefort cheese), since if the goods do not come from the place designated, their entry may either be prohibited or require a counter-indication of origin.

Responsibility for marking goods with the name of the country of origin does not always lie with the exporter.

Sometimes the requirement is that the mark be placed on the goods before their sale in the country of import. Then it is the importer who is responsible for marking goods.

The serial number is often the most valuable identification mark on a package. A new set of serial numbers should be established every six or twelve months. If a shipment container a large number of containers, a separate set of numbers should be used. If two commodities are shipped, odd numbers can be used to represent one commodity and even numbers the other. Shortages can be quickly detected, contents identified, assembly and distribution facilitated, and difficulties with customs and carriers avoided by placing serial numbers on all packages and identifying the packages with the same numbers included on invoices and shipping documents.

VIII. WAREHOUSING AND STORAGE

A. Introduction

The present discussion has two objectives. The first is to point out the functions of warehousing, especially distribution warehousing, including some of its physical service and operational aspects. The second objective is to suggest how a firm may devise and implement a distribution warehousing policy to best serve its needs.

B. Definition

1. Traditional

According to Webster "warehouse" (n.) is "a storehouse for wares"; to "warehouse" (v.) is "to deposit or secure in a warehouse". Basically, "pure" warehousing is a storage function.[1] An expanded definition of warehousing includes receiving, storing, and shipping of materials in any form, and at any point in the process of manufacture and distribution.

2. Evolution Toward Distribution Warehousing Concept

As has been the case with the other activities included under the heading of physical distribution

[1]James M. Dixon, "The New Image of Warehousing," Distribution Manager, January, 1968, p. 46.

management, a different view of the warehousing function has emerged in recent years. Formerly the warehouse was looked upon as a storage unit designed to help satisfy the basic marketing process with warehousing as an ancillary function necessary to match supply with erratic demand. Now the concept of distribution warehousing as an integral and more dynamic part of the firm's physical distribution program has developed, and with it the following definition of the distribution warehouse:

> "A distribution warehouse is a specialized fixed facility included in the design of a physical distribution system to accomplish a specific objective. That objective is to provide the desired level of customer order delivery at the lowest total cost."[2]

C. The Role of Warehousing in Physical Distribution

Marketing competition between firms has intensified in recent years, and inventory carrying costs have spiraled. The physical distribution process, which is intimately associated with both the marketing process and the disposal of product inventories, consumes a large proportion of the sales dollar for the average manufacturing firm.

Physical distribution adds time and place utility to product inventories as it guides them through the channel of exchange from factory to consumer. The firm's goal in distribution is to maximize its profits by providing a competitive

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[2] Donald J. Bowersox, et. al., Physical Distribution Management, (New York: The Macmillan Company, 1968), p. 246.

level of customer service, while at the same time keeping costs at a minimum. A number of functions are performed in the process of moving products through the channel. The principal functions are:[3]

1. Adjustment

Adjustment is the creation of an assortment of goods. At some point goods must be concentrated, sorted, and then dispersed.

2. Transfer

This function involves movement between material sources, production sites, and markets.

3. Storage

Storage often occurs in the exchange channel in anticipation of future transactions.

4. Handling

Each handling has a separate and unique cost. The object is, therefore, to reduce handl to a minimum.

5. Communications

This is a two-way function in the exchange channel.

[3] Ibid., pp. 47-51.

One direction relays the need for exchange action, the other monitors the progress toward desired end results.

Warehousing is closely associated with three of the basic channel functions: adjustment, storage and handling.

D. Classification of Warehouse Facilities

Warehouse facilities may be classified by function, by ownership, and by type of structure. This classification is not restricted to distribution warehousing, but covers all principal types of warehousing.

1. Functional Classification

a. Storage

The use of storage warehouses are all closely related to problems of demand and supply coordination. The basic functions performed by a storage warehouse are:

(1) Leveling out

Allows the leveling out of production activities for products with seasonal supply and demand patterns.

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(2) Conditioning

This function involves maturing, ripening, aging, or other natural processing.

(3) Stockpiling

Stockpiling of strategic materials, e.g., building up of inventories in anticipation of a strike.

b. Materials handling

The primary function of a materials-handling warehouse is to "assemble, mix, and segment goods in transit."[4] A strict materials-handling warehouse concentrates almost entirely on the movement of goods in and out and involves only a minimum of storage. Materials-handling facilities can be sub-categorized as assembly warehouses and distribution warehouses.

(1) Assembly warehouse

An assembly warehouse is involved in the supply process, such as the gathering of large quantities of agricultural goods from a wide region en route to a processing plant.

[4] J.L. Heskett, et. al., Business Logistics--Management of Physical Supply and Distribution, (New York: Ronald Press, 1964), p. 378.

(2) Distribution warehouse

A distribution warehouse is market oriented. Its basic function is to mix and tranship carload and truckload shipments moving from a large number of producing points to an even larger number of customer locations.[5]

c. Field warehouse

Field warehousing is used as a means of financing product inventories. This is accomplished through the issuance of warehouse receipts which are used as collateral for loans. When field warehousing is used, the owner of the goods stores materials or finished goods in his own plant or warehouse. Control of the storage space is transferred to a field warehousing firm which takes legal possession of the goods and issues warehouse receipts for them. The field warehouse need not be located on the manufacturer's premises. It is often located on the property of a customer of the manufacturer. An example is a supply of cans located at a cannery in anticipation of the canning season. This practice allows the manufacturer to finance the production of more cans, while the cannery has a ready supply.[6]

[5] Ibid.

[6] R.S. Alexander, et. al., Industrial Marketing (Homewood, Illinois: Richard D. Irwin, Inc., 1961), p. 546.

d. Combination warehousing

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While separate facilities exist to perform each of the three functions listed above, most warehouses are designed to accomplish a combination of these functions. Most public warehouses provide all three, while the typical private distribution warehouse combines materials-handling with storage.

2. Ownership Classification

a. Public warehouses

In a sense the public warehouse is the "common carrier" of the warehouse industry. Public warehouses offer space and a wide range of distribution and storage services. Charges at public warehouses are based on space used and services provided.

b. Leased warehouses

A firm which desires control over its warehouse facilities, but which does not wish to commit the necessary capital for purchase or building, may lease warehouse facilities. In recent years real estate developers have built distribution warehouses for firms to lease for periods as short as five years.

c. Private warehouses

The firm owns its own warehouse facilities.

3. Physical Classification

a. Enclosed buildings

Most materials-handling warehousing is conducted in enclosed buildings, as is some storage warehousing. "Materials-handling warehousing is characterized by lateral movement, using a one-story structure and high-speed materials-handling techniques. Storage warehouses may be multi-story facilities, requiring less flexible and less rapid methods of handling materials."[7]

b. Covered sheds

Partial enclosures are used primarily for storage warehousing, although their use is not restricted to this function.

c. Open storage piles

This method of warehousing is used for storage of high bulk, low value commodities, such as ores and coal.

[7] J.L. Heskett, op. cit., pp. 380-381.

E. Purpose and Necessity for Distribution Warehousing

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The distribution warehouse serves as a vital link in the total distribution system. The goal is to provide a competitive level of customer services, thereby reaping maximum revenue at the lowest total cost (i.e., profit maximization). In their efforts to reduce overall costs of production, inventory carrying, and distribution, many firms have developed greatly improved sales forecasting techniques and production-planning methods. These advances have eliminated much of the need for storage-oriented warehousing of product inventories. However, the need for warehouse facilities, primarily to serve the distribution process, has continued. Although some storage is still performed in most distribution warehouses, the primary emphasis is on the flow process.

F. Functions of Distribution Warehousing

Within the general framework of the entire physical distribution system, the basic function of distribution warehousing is to assist in maximizing the firm's sales penetration over a geographical market area by giving the firm an economical method of providing its customers with a rapid and consistent system of inventory replenishment. This overall function can be broken down into several sub-functions.

1. To Complete Product Line Adjustment

"The distribution warehouse exists to complete the process of product line adjustment in the exchange channel."[8] It is the physical place in the exchange process where products are concentrated, sorted, and dispersed to the next level.

2. To Effect Savings in Total Transportation Costs

An important motive for the establishment of inventory in a given location is to take advantage of volume transportation rates from the point(s) of production to that location. The location of the warehouse relative to production points and market areas is important in determining the nature of the transportation economies realized (and also the specific types of product line adjustment services offered). When a warehouse is located in a market area, goods are shipped to it from production points (or other distribution points) in carload or truckload lots which are then broken down into customer order quantities for local delivery. The transportation economies in this case result from the application of volume (carload) rates for the longest portion of the haul. A warehouse located between producing points is often utilized as an in-transit mixing point. Carloads or truckloads of one product arrive from producing points and are regrouped into different assortments and forwarded to customers. Volume rates apply on both inbound and

[8] D.J. Bowersox, op. cit., p. 246.

outbound shipments, with the lower rates applying on a major portion of the haul.

3. <u>To Provide Improved Customer Service</u>

The customer service advantages of warehousing are usually more important than any savings realized in transportation costs. Transportation economies seldom are able to balance out the additional costs of adding a given warehouse.[9] The use of distribution warehousing to place product inventories in the market area assures customers of reasonably fast and reliable delivery service. This service is valuable to customers insofar as it relieves them from the burden of carrying larger inventories as a cushion against delays in order deliveries. It also enhances the firm's service reputation and protects it against possible lost sales due to uncertain delivery schedules. In a similar manner, strategically located intermediate distribution warehouses, which combine products into carload lots of custom assortments forwarded to customers at lower volume rates, provide a valuable and economical customer service.

4. <u>To Provide for Necessary Product Storage</u>

While the primary emphasis in a distribution ware-

[9]Roy J. Sampson and Martin T. Farris, <u>Domestic Transportation</u>, (Boston: Houghton Mifflin Company, 1971), p. 451.

house is on product flow rather than on storage, many distribution warehouses provide all of the functions of a traditional storage warehouse. The storage function performed by distribution warehouses may be temporary storage or permanent storage. Temporary storage is that provided for basic short-term inventory replenishment. Permanent storage refers to all storage over and above temporary storage. Very little storage of a permanent nature is performed in a distribution warehouse.

G. Services of Distribution Warehousing

The major operating services supplied by a typical distribution warehouse are described below.

1. Specific Product Adjustment Services

This is the general process of providing an assortment of goods for the benefit of a firm's customers. It is necessary to distinguish between the adjustment services performed by a private (or leased) distribution warehouse and those offered by a public warehouse.

a. Private warehouse

(1) Concentration

This refers to the accumulation of large lots of one or more goods. These large lots are stored as they arrive, pending receipt of customer orders.

(2) Sorting

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Sorting is the process of preparing a custom assortment of goods to fill customer orders.

(3) Dispersement

This is a directive process which consists of placing the custom assortments in the right place at the proper time. Included are such services as in-transit mixing and dispersement for local delivery discussed above.[10]

b. Public warehouse

The public warehouse is capable of offering all of the services listed above. However, for most public facilities, emphasis is placed on their ability to assist (do only certain parts of) in the development of product assortments. Accordingly, distribution public warehouses perform four specialized services connected with the product adjustment function:

(1) Stock-spotting

Manufacturers often use the stock-spotting service of public warehouses to send a substantial

[10] D. J. Bowersox, op. cit., p. 48

quantity (such as a carload) of one product or a mixture of products to the warehouse to have stock available in anticipation of customer orders in that area.

(2) Complete line assortment

Here the public warehouse performs the full above-listed range of services for private warehouses. Products are stored in anticipation of demand and grouped into customized assortments.[11]

(3) Break-bulk

This service by a public warehouse involves the manufacturer sending relatively large quantities to the warehouse with accompanying instructions as to its disposition among various customers in the area, with the warehouse making deliveries accordingly.

(4) In transit mixing

This service is similar to that described in G.1a (2) and (3) and G. 1b (2) above, except that no storage need be involved.

(5) Pool car service

Here the public warehouse offers a function

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[11] Ibid., p. 266.

similar to that of the freight forwarder. Shipments from different manufacturers are consolidated, loaded into "pool cars," and forwarded to customers at volume transportation rates.

2. Storage Services

The essence of storage service is providing space. However, provision in the warehouse of the proper physical environment required to retain (or increase) the value of the product during the period it is kept in storage is also very important. Depending on the product, it may mean keeping the surrounding air within a certain temperature range, keeping the relative humidity of the surrounding atmosphere within a certain range, perhaps providing an especially secure place for high value products, or a separate, secured area for storage of dangerous commodities such as explosives, chemicals, etc.

3. Financial Services

In addition to the issuance of warehouse receipts, some public warehousemen, being experts in their field and aware of local market conditions may provide a firm with useful advice relative to sources and other aspects of financing.

4. Miscellaneous Services

In addition to the basic warehouse services discussed above, public warehouses offer a wide variety of miscellaneous, but useful services. Examples are automatic reordering systems and expert advice on local market conditions.

H. Distribution Warehouse Operations

Operations in distribution warehouses are mainly break-bulk and regrouping procedures. While there is often some intermediate storage involved, "a common and desirable practice is to have products arrive and depart from the warehouse during the same working day."[12] This practice is consistent with the overall physical distribution objective of profit maximization by providing good customer service at the lowest cost. This requires efficient materials handling procedures.

1. Materials Handling Equipment

Efficiency in distribution warehouse operations depends on machines and equipment which expedite movement.

a. Individual powered vehicles

Included in this category are fork-lift trucks which can lift loads 20 feet and higher, and which are

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[12] Ibid., p. 255.

available in many designs for special situations; towing tractors, which can pull a number of trailers and which are suited for moving large volumes of goods. Fixed path cranes for very heavy loads and portable cranes for items not suitable for fork-lifting are also included. Various pieces of hand-powered equipment (hand cranks, hand pushed vehicles and conveyors), useful in light-weight moving situations where space is restricted are also found in this category.

b. Conveyors

Gravity and hand-powered conveyors utilize rollers or wheels. They are inexpensive and highly portable installations. The use of gravity conveyors is often limited by the required end-height difference, usually 1/4 to 3/4 inches per foot of running length. [illegible] powered conveyors include belts, live-[illegible], floor mounted drag-lines, and ceiling mounted trolley conveyors. Drag lines and trolley conveyors have attachments which allow individual carts to be [illegible] and moved.

c. Freight unitizing equipment

This includes a number of different containers [illegible] storage and handling as well as platforms and enclosures used for the accumulation of commodities into units for easy storage, order selection, and movement. Besides containers, this group includes pallets, bins, drawers, and tying devices or nets.

d. Storage aids

Pallet racks are metal or wooden frameworks which facilitate the stacking of palletized materials. Removal of palletized loads from the lower portions of stacks is possible without disturbing the whole stack. Dunnage consists of objects used to brace, steady, or otherwise protect freight being stored or moved.

2. The Warehouse Layout

The layout of a given distribution warehouse depends on various factors--among these are the materials handling system used, the outbound and inbound transportation modes, characteristics of the products handled, the volume of products handled, and many more.

3. Operating Activities

The main operational activities carried on in the typical distribution warehouse are:[13]

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[13] Ibid., pp. 255-256.

a. Receiving

Merchandise usually arives in carload and truck load quantities, and is often unloaded manually. Where possible, pallets are used to unitize loads. Generally, one or two men are involved in the unloading process.

b. Transfer

Two and sometimes three product transfer movements are required for a given load of merchandise received at a warehouse. First, the merchandise is moved via fork-lift or other device from the transportation vehicle into the warehouse. If this first move is made to a storage location or holding area, a second move then will be a transfer to the selection area. The final internal transfer movement is that from selection area to the loading dock. The intermediate transfer is often made with tow trucks and trailers or fork-lift trucks. The final transfer to the loading dock is usually made via selection cart, although a number of other materials handling methods have been devised to accomplish this.

c. Order selection

This is the key operating activity in a distribution warehouse. Approximately two-thirds of warehouse floor personnel are involved, on the average, in some phase of order selection. The object is to regroup merchandise into customized assortments (or order quantities of one product) according to sales orders received. The selection activity is coordinated with the billing process, and automatic data processing systems are usually used to facilitate billing.

d. Shipping

This activity consists of loading the car or truck for outbound movement. A thorough checking operation is also involved when ownership of the merchandise is changing hands.

4. Operating Procedures

Each distribution warehouse usually has its own set of standard operating procedures which cover each phase of materials handling operations, and such other activities as billing, reordering, inventory verification, etc. In regard to storage, however, it is necessary that adequate effort be expended in devising an efficient system of space identification, assignment, and utilization, and movement patterns and routines.

5. Warehousing Costs

Warehousing costs are generally quite high, consisting of a large proportion of fixed costs such as amortization of buildings and sites, investments in materials handling and office equipment, and administrative, maintenance and insurance expenses. A substantial amount of variable costs--primarily labor expenses and supplies are also present. When a firm operates its own warehouse, most of its costs are fixed in nature. When it uses public warehouse facilities, its warehousing costs are almost entirely variable, depending upon the amount of space used and the services required.

Viewing the subject of warehousing costs from the perspective of the firm's entire physical distribution program, the important consideration is not the amount and nature of the explicit costs, per se. Rather, it is more a question of the "opportunity costs." How much does the warehousing system contribute to the goal of profit maximization? Would an alternative system do a better job? Since distribution warehouses are usually established with customer service uppermost in mind, any proposal to eliminate a warehouse should include an alternative method of furnishing the services required. Otherwise, the firm must suffer the consequences of providing a reduced level of customer service. An alternative to branch warehousing is the substitution of premium transportation service--i.e., a faster and more expensive service.

I. Role of Warehousing in Total Physical Distribution Effort

1. Cost Versus Customer Service

The first step in planning a physical distribution strategy is to decide what level of customer service the firm wants to provide. The basic dilemma is that a high level of customer service is usually expensive, while lower levels may result in reduced sales. Somewhere between the cost-based and service-based approaches is a point where, when the proper balance is struck, profits are maximized. Finding this point is the objective of a thorough cost and profit analysis.

2. The Channel of Distribution

To obtain an answer to the questions of how much warehousing a firm should perform, and how much can be passed on to its customers, it is useful to consider channels of distribution. Generally, each individual industry has a more or less traditional pattern of product distribution. Although many variations often exist between firms in the same or similar industries, two generalizations can be made. First, in the industrial goods industry direct distribution from manufacturer to consumer is not unusual. Second, in the mass-produced consumer goods industries the most typical distribution channel structure is from manufacturer to wholesaler to retailer to consumer.

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The best channel structure for a firm to use in distribution is based on several considerations, among which are the characteristics of the product, buying habits of consumers, and the firm's overall marketing strategy. Certain channel structures may give the manufacturer an opportunity to shift more of the burden of the warehousing function to channel intermediaries. Tradition may also be important. For instance, if a manufacturer in a given industry where the wholesale distributors do not customarily carry large product inventories attempts to shift the burden of warehousing to wholesale customers, stiff resistance is likely to be encountered.

The trend in warehousing has been for the manufacturer to assume more and more of the burden. There are few instances where the manufacturer does no warehousing. Firms at the wholesale and retail level have been caught in an especially painful cost and profit squeeze, and have become acutely inventory-sensitive. More and more, firms at the intermediate and final distribution levels are resisting pressure to carry what manufacturers consider adequate product inventories.

3. Warehouse Investment Alternatives

Once a firm has determined that it will perform part or all of the warehousing function, it must consider what type of investment to make in warehouse facilities, i.e., rent, lease, or buy.

a. Rent space in public facilities

Public facilities are widely available and offer a full range of distribution and storage services. The foremost single advantage of using public facilities for warehousing is their flexibility. No investment in facilities is required, and adjustments can be made to changes in distribution patterns (which might render an investment in private facilities obsolete) quickly and inexpensively.[14] Public warehouse facilities are available when needed, and there is no contract requiring use of a minimum amount of space over a given period of time. Thus, there is no wasted overhead during slack seasons, and there is room for expansion during peak periods. Other advantages are that no additional management is needed; the cost per unit of merchandise handled is lower when the volume of operations is low or widely fluctuating; and warehouse costs are known factors, which facilitate cost planning.

The main disadvantage of using public warehouse facilities is that the cost is likely to be higher in situations where sales volume is sufficient to support a full-scale private warehouse. This is partially because a public warehouseman cannot count on maximum

[14] "The Place of the Public Warehouse in the Physical Distribution Picture," Distribution Age, April, 1966, p. 40.

space utilization, and partially because a private warehouse is designed specifically for one firm and its particular product and distribution requirements.

b. Lease or buy private facilities

Since private warehouse facilities may be either owned or leased, the decision which fits best is essentially one of financial planning, assuming suitable facilities for lease are available. The advantages and disadvantages of this option are approximately the converse of those associated with the renting of space in a public warehouse:

c. Use a combination of public and private facilities

Many firms use a combination of public and private facilities in their distribution warehousing programs. A private facility is used to cover the firm's basic requirements (when volume warrants) that are more or less constant during the year, and public warehouses are used to handle peak requirements when and where volume is insufficient to support a private operation.

4. Warehouse Location Alternatives

The question of whether the firm should operate one or more than one distribution warehouse in its physical distribution program hinges on the relationship between cost and service. Generally the larger the number of locations the larger the product inventory required and the higher the costs of distribution. Within the general framework of cost versus service considerations, certain other factors may help the firm to determine which location strategy is most appropriate.

a. Non-differentiated products case

When this condition exists, there is little customer loyalty to individual producing firms. Costs of production and distribution determine which firms can sell in a given market area. Often, larger and more efficient firms are able, through the economies of distribution warehousing, to compete in relatively distant markets in which smaller and less efficient firms are located.

b. Differentiated products case

In the course of expanding a firm's marketing area, a policy of opening distribution warehouse facilities can be very advantageous. The use of such a strategy may give the firm the benefits of transport economies, in addition to service economies such as faster inventory replenishment and lower customer inventories. This can be an important competitive advantage.

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c. Custom-made products

A firm which makes products to specifications often has little need for stock-carrying branch distribution warehouses. Similarly, a firm which exercises a degree of monopoly control within its industry may be better able to shift the burden of providing warehousing and other expensive distribution functions, and thus avoid the necessity of opening branch warehouse facilities.

d. Other product considerations

There are other, more specific, product characteristics which play an important part in determining whether or not a manufacturer will find it desirable to establish its own local warehouse facilities to improve his competitive situation in distant marketing areas. For example, products which deteriorate over time, which become obsolete rather rapidly, or which have a highly unstable demand often are considered "high risk" products to inventory. Retailers and wholesalers are generally disinclined to carry large stocks of such products. Thus, if a producer wants to sell his product in a particular market, he may have to assume the largest share of the burden of warehousing his own local inventory stock.

e. Competitive considerations

This refers to consideration of the policies of a firm's competitors. In many cases such policies may force a producer to follow a higher cost distribution program than he would follow on the basis of product considerations alone.

5. Location Strategy

When a firm decides to employ a multiple-location distribution warehousing system, it must decide how many branch warehouses to establish, where each warehouse should be located, and what area should be served by each.[15]

a. Number of distribution points

The number of distribution points from which a product is distributed depends on the geographical distribution of the product, the acceptable time to deliver an order to the customer, the percentage of the market to be reached, and the speed of the transportation mode used. As a general rule, as the number

[15] Arthur W. Napolitan, "Determining Optimum Distribution Points For Economical Warehousing and Transportation." (Reprinted in Marketing Logistics: Perspectives and Viewpoints, N.E. Marks and R.M. Taylor, editors (New York: John Wiley & Sons, Inc., 1967), p. 77).

of warehouses in a given distribution system is increased the inventory turnover in each decreases and more total inventory is required. Thus, after a certain point, there is a decline in overall operating efficiency.

b. Where should they be located?

There are three basic distribution warehouse locations strategies.

(1) Market-positioned

The basic function of inventory replenishment to retail stores or local wholesalers is served. Transportation economies based on volume rates for the long haul coupled with the very short local hauls are afforded.

(2) Production-positioned

Plants are located in strategic market areas with carload lots shipped from each plant to collection centers where customer assortments are prepared.

(3) Intermediate-positioned

Location may be selected intermediate to production centers and markets. For various reasons, firms may locate product plants at various points, and for purposes of marketing control a firm may want to engage in a convergent marketing program for their entire product line.

c. <u>How much area should each serve?</u>

A decision as to the optimum area which each warehouse facility should serve is based on the required speed of customer inventory replenishment, the size of average orders, and the cost per unit (e.g., ton) of local delivery.[16] Warehouse operating costs per dollar of goods distributed increase as the area served increases, and decrease (until the design capacity is reached) with increased volume. This relationship can be expressed in simplified mathematical form as follows:[17]

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[16] D.J. Bowersox, *op. cit.*, p. 249.

[17] Edward H. Bowman and John B. Stewart, "A Model for a Scale of Operations," *Journal of Marketing*, January, 1956, p. 244.

$$C = a + \frac{b}{V} + cA$$

C = cost per dollar value of goods distributed
V = volume handled per unit time
A = area served by the warehouse facility
a = variable costs (labor mainly)
b = fixed costs per unit time
c. = costs of distribution locally (gas, truck expenses, driver hours, repairs, etc.)

This discussion of the location choice problem for distribution warehouses has been greatly simplified. A great deal of effort has gone into this subject by many persons, and linear programming methods and various mathematical models have been designed specifically to assist firms in finding solutions to warehouse location problems.

J. Beneficiaries of Distribution Warehousing

1. The Retailer

The retailer wants merchandise available when needed and does not want to maintain large inventories. The creation of stocks of merchandise at strategically located points offers the most practical and economical means of satisfying these demands.

2. The Wholesaler

Wholesalers as a group have become increasingly reluctant to assume the burden of carrying large inventories.

Distribution warehousing that facilitates the shipment of custom assortments to wholesalers and distributors at volume rates, or that assures the wholesaler of a readily available supply of products without requiring him to carry the inventory burden, is obviously of great value to this group.

3. The Producer

The burden of providing the warehousing function has been steadily shifted back to the manufacturer. This group, therefore, benefits from a well-planned and efficient system of distribution warehousing. Such a system improves a firm's competitive position by providing increased customer service, and also permits it to gain important total cost economies.

IX. CONTAINERIZATION

A. Introduction

In everyday usage, the term "container" refers to anything from a shoebox to a piano crate; however, in transportation, the word has acquired a specific meaning.

1. Containerization Defined

Webster defines container as "a box, carton, crate, etc. used for holding goods." The verb containerize, therefore, means the act of placing goods in a container, an activity which is not new. The element of containerizing which is new, however, lies in the use of a "box" with the following characteristics: of a permanent character and accordingly strong enough to be suitable for repeated use; specially designed to facilitate the carriage of goods, by one or more modes of transport, without intermediate reloading; fitted with devices permitting its ready handling, particularly its transfer from one mode of transportation to another; so designed as to be easy to fill and empty; and having an internal volume of one cubic meter or more.

Another definition, which also embodies the idea of efficiency, is: the placing of shipments in various forms of boxes, containers and the like, for the ease of handling between origin and final destination.

Still another definition puts emphasis on the container as a "common denominator" in transportation. It must be interchangeable, much as the uniform coupling pin and standard gauge of rail track for all U.S. railroad cars.

Although definitions vary, containerization today connotes the idea of placing goods in a relatively large "box" which has transportation characteristics common to all modes of transportation (except pipelines), and which, therefore, allows the goods to move via any mode or modes with a minimum of actual handling of the goods themselves.

2. Types of Containers

The most common containers are eight feet by eight feet by 10, 20, 30 or 40 feet; however, many variations in container dimensions currently exist. Containers are generally constructed of aluminum or steel, although plywood, fiberglass, and a combination of these and other materials may also be used. Recent developments have also produced collapsible rubber "containers."

a. Commercial containers

Some of the containers available, and a general description of each, are listed below.

(1) Closed top, dry cargo container

This is the true van or box type container, rectangular in shape. Weight and cubic capacities range from 5,000 pounds and 500 cubic feet to more than 60,000 pounds and 2,000 cubic feet.

(2) Open top, dry cargo containers

These containers are used where it is practical to use overhead handling equipment to load a van. Open top containers are normally equipped with tarpaulins to protect their cargo from the elements.

(3) Insulated or ventilated containers

These containers are used to carry items such as food, drugs, film, electronic equipment, and other products requiring protection from temperature extremes. This type of container often saves on internal packaging costs.

(4) Controlled temperature and/or humidity containers

These containers are equipped with temperature and humidity controls and are designed for items that require low temperatures, such as ice cream and meat, and for items requiring humidity control, such as fruits, vegetables, and drugs.

(5) Side loading or platform containers

These containers are ruggedly built to handle heavy construction materials. Both the sides and the top are open, thus permitting easy loading from either side by forklift or from the top by overhead crane.

(6) Tanker (bulk liquid) containers

These containers are designed to carry most bulk liquids. They may be either insulated or heat controlled. Because of their often hazardous cargos, these containers must comply with Interstate Commerce Commission and U.S. Coast Guard regulations.

(7) Car-haul containers

These containers are usually capable of transporting from two to four automobiles. They provide considerable savings in cubic space and reduce handling, damage, and pilferage.

b. Military containers

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(1) CONEX (container express)

These containers come in two sizes which can be intermixed for shipping, tiering or storing. The Type I container is one-half the size of the Type II but has the same weight capacity as the larger, each having a capacity of 9,000 pounds.

(2) MILVAN

This is a completely intermodal container consisting of the container of "box," a coupleable chassis, and a moveable bogey. It measures 8' x 8' x 20', and thus is compatible with commercial containers meeting ISO standards.

3. Container Construction

The so-called container "explosion" has generated a a great deal of interest among those who construct containers. With large potential demand, various materials are competing vigorously for use in container construction. Materials which have become chief contenders are aluminum, steel, fiberglass, and a fiberglass-plywood "sandwich" panel in an aluminum frame. Aluminum and steel, however, have been the dominant materials.

a. <u>Aluminum</u>

Aluminum has the basic advantage of being a light-weight and rust-proof material. Although weight may not be a problem in rail and water transportation, it definitely is a factor in motor and air carriage. Therefore, if growth of containerization depends on intermodal movement, aluminum will remain important because of its relative light weight.

Another advantage of aluminum is its fabrication costs. The metal comes in wide sheets which minimize joining and cutting.

Aluminum's inherent strength, however, is lower than that of steel and other competing materials. It [illegible] punctured, subject to electrolysis when [illegible] to salt water, and is difficult to repair without skilled workers or special facilities.

b. <u>Steel</u>

All-steel containers compete with those built of fiberglass or a fiberglass-plywood combination where weight is not a problem and maximum strength is desired. Steel provides good protection to cargo [illegible] stands up well under abuse.

In addition to the extra weight of steel when compared with aluminum, it also has other drawbacks.

Steel is subject to corrosion even when galvanized and finished with zinc paint. The steel container is also subject to electrolysis after it has been dented or buckled because indentations trap water. The seamed walls of the steel container are also susceptible to leaks. Damaged containers require repair by skilled workmen and special equipment.

c. Fiberglass-plywood

A fiberglass-plywood combination is a material of increasing importance in container construction. Plywood alone has not proved satisfactory because it lacks the necessary durability. Combining it with fiberglass has allowed for a unique heavy-duty panel which combines the properties of structural plywood with those of strong glass-reinforced plastic. This allows the container to be durable, rigid, weathertight, and resistant to impact, abrasion, and corrosion. On the basis of cost it compares favorably with other materials.

B. Acceptance of Containerization

1. Shippers

Although containerization has been widely discussed in leading business journals and has been of concern to some exporters, research indicates that a great number of organizations and companies neither know nor care much about containerization. Several explanations may account for this.

First is the fact that the average manufacturer engaged in foreign trade is far removed from the actual business of transporting his cargo through a port. He may sell through a professional export house which deals with a freight forwarder who in turn deals with the various modes of transportation and warehousemen. Second, there is a lack of concern and interest on the part of corporate management because of their view of the traffic world as a vast, complex system of rates, tariffs, and regulations.

2. Carriers

Container shipments have been accepted by various modes with varying degrees of enthusiasm and success.

a. Water carriers

Initially water carriers placed containers on the deck and continued their usual break-bulk operations in the ships' holds. As a result, one of the basic advantages of containers to carriers, faster turnaround time was lost. In recent years specialized vessel have become the preferred method of moving containers.

The number of new specialized container ships and the services they are offering is impressive. Traffic across the Atlantic and the Pacific is handled by these new ships on a regularly scheduled basis, and competition among shipping companies for this traffic is very keen.

b. Railroads

Some large U.S. railroads have been strong supporters of containerization. One major railroad built a 14-acre "piggyback" terminal designed exclusively for handling containers. Another has approximately 2,000 containers which it uses interchangeably on rail or highway chassis. Still another has 450 so-called FlexiVans which form part of an integrated system operating between New York and points in Europe.

The German Federal Railway also has shown its support for the containerization concept and already has on hand the necessary equipment for extensive participation in international container transport.

c. Intermodal

Intermodal integration of container traffic primarily has involved either a truck-ship or truck-rail combination, except for freight forwarders (such as REA Express which has a coordinated three-modal container system). The increasing integration of trucks with either rail or ships has resulted in initiation of container service by motor carriers with provisions made for rail movement for the long haul and delivery, pick-up, and connecting service by the motor freight system. Some interest is also shown in integrated truck-airline container service.

d. Airlines

Another major impetus to containerization may come from the airlines. Fully containerized air freight service may develop with commercial cargo versions of the C-141 and the C-54, at projected costs of transportation comparing favorably with trucking costs for movements in excess of 400 miles.

3. Ports

The exploding use of containers has caused ports to overhaul their construction plans for the immediate and long-range future. Port Authorities are convinced of the necessity for providing facilities that will meet the needs of containers.

a. Vessels served

At present, ports are faced with handling three types of container-carrying vessels. First, there are conventional ships built with conventional package cargo in mind. They now handle various sizes of containers which fit through hatches or which are lashed on deck, depending on size. Second, some conventional ships have had some hatches converted for handling containers exclusively in vertical compartments, while the remaining hatches still handle conventional package cargo. Third, there are more and more ships being designed exclusively for containers.

Vessel in the first two categories still can utilize the finger-pier, especially if their container capacities are not too large. Finger piers adequately serve those handling smaller containers, up to 20 feet in length, but larger containers must be unloaded elsewhere. Since only small containers are handled, users of the finger-pier benefit from less congestion and therefore have better turnaround time.

b. Container discharge and loading

Large container vessel require considerable space for discharge and loading operations. Often auxiliary facilities, such as a packing shed, garages, and offices are required. Large containers require a shore-based crane for loading and unloading.

Smaller operations do not have such extensive needs. It must be noted, however, that a specialized container ship may carry up to 1,200 containers, all of which need dock space when unloaded. Theoretically, there is space need for the same number of containers awaiting loading. American container companies use the trailer park system for storage. This requires extensive space, because every container stored at ground level has to be accessible by tractor. Others, the British in particular, because of the premium on space, are introducing a system known as "multiple stacking." Handling equipment and space requirements are reduced, but a fast overhead gantry crane is required. Many smaller ports may be unable to obtain these cranes. In addition, access to any one container may not be possible on short notice.

United States ports have succeeded in keeping pace with container developments by providing facilities aiding the container industry. Present and planned facilities capable of handling fully containerized vessels assure ample future capacity.

C. Advantages and Disadvantages

The basic premise of containerization is lower costs (or greater efficiency) resulting from a number of advantages.

1. Advantages

a. Shipment protection

By giving "permanent" protection to a shipment for the entire duration of the trip, containers provide a means of greatly reducing the need for protective packaging. Cost savings from the reduction or elimination of special packaging are usually substantial. In addition, transporting goods in a sealed unit greatly reduces loss from pilferage. The reduction of loss and damage may also lead to a downward revision of insurance rates.

b. Reduced handling time

Because containers allow cargo to be handled in large standardized units, handling time at transfer points is substantially reduced. This has brought remarkable improvements in turnaround time, allowing shippers to reduce inventories in transit and to give speedier service to customers.

c. Minimized paperwork

The advent of containers has increased the possibilities for minimizing the paperwork involved in international shipments; for example, the use of a single bill of lading would be appropriate for the entire movement from origin to destination. However, the elimination of cumbersome paperwork is progressing very slowly.

d. Rate structure simplification

Through-movement of standardized units sets the stage for simplification of the present complex rate structure. This enhances the possibility of a switch from commodity-oriented tariffs to tariffs based solely on a weight and distance.

e. Basis for rate reduction

By facilitating surface movements, containers provide a basis for reduction in inland freight charges.

2. Disadvantages

Although many advantages are present, some major disadvantages and problems must be overcome before containerization will become a fully accepted and completely integrated element in the transportation system.

a. Lack of standardization

A lack of universal standardization has often been cited as a factor interfering with achieving the full benefits of containerization; however, this problem is sometimes overstated. Many non-standard containers are used for specialized movements, receiving high utilization in moves in which there is little or no need for interchangeability.

b. Legal problems

Container use presents many legal problems which have not yet been satisfactorily resolved. These problems generally fall into the categories of either restricting intermodal agreements and operations or of complicating customs and inspection procedures.

c. Traffic imbalance

Carriers face a number of problems which are uniquely their own but which are, in the long run, reflected in the costs and services to shippers. Most prominent among these is the need to achieve a balanced directional flow of traffic so that carriers are not confronted with large deposits of containers which must be returned empty without earning revenues.

d. Large capital investment needed

Containers increase the need for large capital investments both by carriers and by ports. Carriers have to invest both in the construction of containers and in altering and building vessels to utilize containers. Depots and ports must also be altered to facilitate container movements.

D. Some Aspects of Container Usage

1. Supply

Containers are usually supplied by the carrier (steamship companies predominantly; however, U.S. railroads have been purchasing and leasing an increasing number of containers). Also, independent agencies supply containers to those wishing to rent or lease them. Carrier allowances for the use of non-carrier owned containers are not uniform; types of allowances vary from a per-diem charge to a flat amount to a percentage.

2. Packing of Container Cargo

Although containers often drastically reduce the need for protective packaging, they do not eliminate it. The type of packaging necessary is a function of the nature of the product, the type of handling it will receive, and the climatic conditions to which it will be exposed. Compactness must also be considered; when freight is paid per unit of cubic measure, substantial savings can be obtained by elimination of wasted space. In general, in packing non-specialized, nonperishable container cargo, it is usually sufficient to use cardboard cartons without metal strapping. Cartons should be of dimensions which will allow for maximum utilization of interior container space. Often, moveable beams or racks are available to aid in packing and damage prevention. A number of permanent and temporary insulation techniques can be used to prevent damage from exposure to abnormal temperatures and moisture.

3. Handling of Containers

The intermodal movement of containers requires a large amount of special equipment. Specially designed forklift trucks are used for terminal movements and stacking; forklifts are particularly useful for loading containers onto truckbeds. The "piggy-packer," characterized by its large gripping mechanism, is sometimes used for loading and unloading "piggyback" containers. A number of straddle carriers and cranes, as well as shipboard gantries, have also been designed for container handling.

4. Movement of Containers

Carriers have had to modify their equipment to handle containers. Motor carriers have employed a number of chassis and bogie designs for use with containers; when attached, the unit can be moved by a truck-tractor just as a normal trailer would be moved. Railroads handle containers by directly securing them to a flatcar or by carrying an entire trailer assembly in "piggyback" fashion. Ocean carriage is in a period of transition. Full, partial, or convertible container ships are being built, and a number of ships are being modified to handle containers. Other conventional vessels treat containers as large pieces of cargo which are stowed and secured in the usual manner. Vessels which have stowage space specifically designed for container handling usually have an advantage both in efficiently utilizing space and in adequately securing cargo.

5. Carrier Liability

One of the major difficulties of container use is that container contents may be surveyed and inspected only at origin and final destination. Therefore, it is often impossible to attribute damages to a particular carrier. As yet, there is not a satisfactory integration of the various legal systems under which carriers of different modes and nationalities operate. Consequently, liability provisions are still very much unsettled and in a state of evolution.

a. Variations in liability

A certain amount of uniformity in carrier liability on a world-wide basis was developed through The Carriage of Goods by Sea Acts. However, the liability covered by these acts pertains only to ocean carriage; it does not include land or air transportation. In what may be a typical intermodal movement of the future, containers may move by truck to rail, from rail to ship, from ship to rail in a foreign country, and finally by truck, rail, or barge across another international border to the final destination. Liability provisions governing such a movement would change several times in the course of the journey. For truck and rail portions of the movement in the United States liability provisions would not be significantly different. As soon as the container is put on board ship, however, the liability of the carrier is considerably reduced. With transfer from ship to rail, liability would probably again be changed. However, since a different country, and probably a government-owned railroad, would be involved, liability provisions would differ from those of railroads in the United States. Finally, motor carrier or barge movement across still another international border would further complicate the liability picture. Thus, the liability provisions which apply to the total container movement vary with four or five carriers (depending on whether or not truck and rail are considered different with respect to liability), and vary with two or three different countries, depending upon how far the container moves. An example of such a movement would be traffic moving from the Far East to Europe utilizing the American "land bridge."

b. <u>Where does liability attach</u>

Another interesting aspect of the liability question is <u>where</u> does the ocean carrier's liability attach?

Traditionally, the ocean carrier's liability has been "from end of ships' tackle to the end of ships' tackle," meaning that the carrier is not liable for loss or damage while goods are on the pier or <u>en route</u> from inland origins or to inland destinations. However, in the case of a container which may reasonably be considered as an outdoor part of the ships' hold, one may argue that the carrier becomes liable when the goods pass into the container on the premise that the container is an object governed by the carrier.

There is no doubt that the problem of liability in the case of container movements, particularly in international movements, must be dealt with, soon. Perhaps a convention similar to the one from which the Carriage of Goods by Sea Acts originated is needed in order to define liability and to devise uniform rules for the settlement of claims for loss and damage of containerized traffic.

6. Bills of Lading Provisions

Provisions of the bill of lading are very closely related to the liability question. Under most ocean bills of lading in use today, there are provisions limiting carrier liability to $500 per package. Some ocean carriers consider the whole container as a single package. It appears that an approach must be found which will allow a more realistic and uniform cargo valuation for the purpose of establishing liability limits for carriers.

Other provisions (for example, the length of time allowed for filing claims and for filing suit if a claim is denied) vary between the modes of transportation as well as between countries or legal jurisdictions. Consequently, efforts must be made to develop through bills of lading with provisions that will be uniformly interpreted regardless of where an issue concerning a bill of lading provision is raised.

7. Customs Inspection

In the past, customs regulations have been geared to inspection of all incoming and outgoing traffic at coastal ports. Additionally, fees are assessed and collected on contents, insurance, freight and handling costs at ports. Also, some countries assess a two to four percent "turnover tax" on the sum of all charges already made. Such procedures are not conducive to greater freedom of cargo movements. The increased importance of air cargo has prompted the first basic change in regulations. Some inland customs inspection points have been established, and more are being planned in the United States. In the European Common Market great progress has been made through the development of the Customs Convention on Containers.

Classification of the container facilitates its movement through customs and legal barriers. Unlike its old wooden counterpart, the crate, the container has become a part of the transportation equipment. Where inland inspection points are available customs fees and turnover taxes no longer apply at the port of actual entry. Port Authorities only make a number check of the container, which then is free to move to an inland inspection point. In order for the container to move to this inland inspection point, the steamship company has to post an "instruments of international trade" bond to guarantee the nature of its contents.

8. Insurance

The insurance industry has quickly adapted itself to containerization. It has long offered insurance necessary for containers; namely, the "warehouse to warehouse" coverage of transportation risks or the "open cargo policy" which provides insurance for a shipment from a point of origin through a port of loading or discharging to an interior point of destination. Such a feature is of particular importance for the further development of containerization and the eventual development of a fully integrated container system.

a. Risk considerations

Marine insurers of containers have some important considerations regarding the risks involved. For example, does a container which is "bottom-stored" in a vessel have the same risk as an exposed container on top deck? If the risk differs, should the rate based on the worst conditions apply equally?

Shipping of containerized cargo is expected to yield substantial reductions in insurance premiums. Pilferage will be greatly reduced; damage will be decreased because of reduced handling and less exposure to the elements; non-delivery or delayed claims will be reduced, provided incompatible commodities are not stored in the same containers.

These possible reductions could, however, be offset by damage due to poor loading, inadequate packaging of goods in a container and rough handling of containers while in transit. A contributing factor may be losses paid by underwriters because of the inability to pinpoint where or when damage occurred to the cargo while in the sealed container. Losses resulting from underwriters being unable to collect from ocean carriers as a result of the $500 limitation of liability per "package," in this instance the container, may also prevent reduction of insurance premiums.

b. Changes in insurance practice

Although most insurance is still based on a door-to-door movement, some individual changes have occurred. United States domestic ocean carriage to Alaska, Hawaii, Puerto Rico and other destinations allows the carrier to assess charges which include a premium for insurance. The carrier is the beneficiary of the insurance policy and pays for the losses incurred by owners of shipped goods. The insurance company assesses carrier premiums on the basis of gross receipts. Regardless of what form insurance takes, though, its importance will continue even though it is difficult to administer on containers. It is hoped that eventually methods will be developed permitting cargo insurance on an "all risks" basis. This probably would necessarily include a deductible clause, especially for coverage of containerized goods.

X. CARRIERS

A. General Classification of Carriers

There are five basic modes of transportation--railroads, motor carriers, water carriers, air carriers, and pipelines.

1. Railroads

Railroads are either private or common carriers. The private group is unimportant in domestic inter-city and import-export traffic movements. Railroads are further designated as linehaul, switching or beltline, and terminal carriers. Linehaul carriers handle inter-city traffic. Switching or beltline carriers offer services between major rail yards and waterfront areas, industrial areas, warehouses and the like. Terminal railroads are usually owned by one or more of the railroads served, and offer services in terminal areas.

2. Motor Carriers

Motor carriers may be passenger operators or freight operators. These are further subdivided into common carriers, contract carriers, exempt carriers and private carriers. Common carriers offer for-hire services to the general public, and are normally closely regulated by the Interstate Commerce Commission or a state regulatory agency.

Contract carriers are also for-hire carriers but are distinguished from common carriers in that they offer their services to a very limited segment of the public and perform only under individual contracts with shippers.

Exempt carriers may offer services either on a common or contract basis. However, due to the nature of their operations or the commodities which they specialize in, these carriers are specifically exempted by statute from economic regulation at the federal level.

Private carriers are also exempt from all economic regulation but must, like exempt carriers, observe all safety regulations. Private carriers are not for hire; rather, they transport the owner's own goods.

3. Water Carriers

Water carriers may be divided into domestic carriers and international carriers. The domestic carriers may be further subdivided into three groups--Great Lakes carriers, coastal carriers, and inland waterway carriers. Each of these includes elements of common, contract, exempt, and private carriage.

International ocean carriers include both the United States flag and foreign carriers, providing services that may be identified as liner or berth services, tramp services, and industrial carriage. Liner or berth service is roughly equivalent of common carriage, tramp service is approximately the same as contract carriage, and industrial carriage corresponds to private carriage.

4. Air Carriers

Air transportation is divided into general aviation and commercial aviation.

General aviation includes private pleasure flying as well as flying done by private industry for purposes of transporting equipment, supplies and personnel, and flying in connection with crop-dusting, fire-fighting, and similar activities.

Commercial aviation is carried on by domestic trunk lines, domestic local service carriers, international and overseas carriers, all-cargo lines, helicopter services, and non-certificated air carriers. Air carriage may also be classified as common, contract or private.

5. Pipelines

Pipeline carriers of petroleum products are both common and private. Almost all of these carriers have common carrier status, however.

B. Transportation Service Characteristics

The most important transport service characteristics include speed, frequency of service, dependability, availability, and capability.[1]

Speed refers to time required to move goods from origin to destination.

Frequency of service refers to the number of scheduled (and actual) departures per unit of time, whereas dependability is a measure of the general ability to meet specified schedules (i.e., a measure of on-time performance).

Availability is related to the number of (and to some extent the nature of) points to and from which a given carrier or mode offers service.

Capability refers to the range of commodity characteristics (i.e., size, fragile, frozen, liquid, explosive, perishable, etc.) which may be accommodated by a carrier or a mode.

C. Carrier Services

1. Rail and Motor Carriers

Surface carriers concern exporters in two ways: as international carriers to points in Canada and Mexico, and as domestic carriers serving air and water ports.

a. Canada and Mexico

American railroads and motor carriers offer connecting services to points in Canada and Mexico. A

[1] J.L. Heskett, Robert M. Ivie, Nicholas A. Glaskowsky, Jr., Business Logistics, New York: The Ronald Press Company, 1964, p. 70.

through shipment can normally be made in the same box-car or trailer; this has the advantage of greatly decreasing the potential for loss and damage from additional handling.

b. Transportation to Ports

Surface carriers are a vital link in export distribution by water and air. They are critical from the standpoint of time and for the physical treatment of shipments. Traffic departments of surface carriers connecting with international air and water ports are often equipped to provide substantial amounts of information and assistance to exporters.

c. Speed

Transit time for truck movements is normally much less than transit time for rail movements. The speed and flexibility of truck pickup and delivery makes motor carriers particularly compatible with air freight operations.

d. Schedules and Frequency

The greater flexibility of motor carriers allows them to provide such frequent service that scheduling is usually not a major concern. Although rail carriers provide relatively less frequent service, the difference is sometimes not significant enough to exclude them as an alternative on the basis of scheduling.

e. Capabilities

Rail carriers are relatively more capable than motor carriers in handling a variety of shipments. Motor carriers are subject both to greater spatial restraints and to various highway regulations restricting their loaded weight and movement.

f. Availability

Motor transportation may be physically available anywhere there is a road. This does not necessarily mean, however, that carriers providing efficient and direct service will be available. Rail carriage is available at any point served by a rail route. If a firm does not have a rail siding, it is necessary to load and unload at a public team track. This additional handling often causes rail transportation to be costly and inconvenient.

g. Handling

If a shipment is packed and secured well enough to withstand the rigors of ocean carriage, there should be little concern for its safety during motor or rail movement. In the case of air carriage, which requires a minimum of protective packaging, caution must be exercised to insure sufficient protection against possible damage from ground handling and movement.

2. Domestic Freight Forwarders

Domestic freight forwarders are of special value to exporters who make relatively small and infrequent shipments. Freight forwarders accept LTL ("less than truckload") and LCL ("less than carload") freight and consolidate it into TL ("truckload") and CL ("carload") shipments. Rates are normally less than carrier LTL and LCL rates but more than TL and CL rates. Income of freight forwarders is derived from the difference between their rates and the TL and CL rates.

3. Ocean Carriers

Ocean carriers, the backbone of international transportation, consist of two primary groups: common carriers which provide regular or scheduled service (i.e., liner or berth service), and contract carriers, which have no regular schedule or fixed itinerary (i.e., tramp or charter service).

a. Speed

Because of the nature of the mode, speed cannot be a crucial factor when considering the movement of goods by water. This does not mean that shipments will not necessarily receive expeditious handling by an ocean carrier; it simply means that the mode itself is characterized by relative slowness. It is important to note that speed is determined not only by the speed of the vessel but also by the carrier's cargo handling efficiency and the number of intermediate stops involved on a given voyage.

b. Schedules and frequency

Because of the enormous capacity of ocean vessels and the comparatively limited number of units in service, the frequency of departures and arrivals is considerably lower than that for other modes. However, common carriers do offer the advantage of regular service. When using tramp or charter service, schedules must be arranged individually.

c. Capabilities

Ocean transportation ranks highest in terms of its capabilities to handle a variety of shapes, sizes, and types of shipments. Both vessels and ports often have special equipment to handle unusually heavy or outsized cargoes. If special handling is required it is necessary to ascertain that equipment will be available not only at the point of departure but also at destination.

d. Availability

Immediate availability of ocean transportation depends upon the shipper's proximity to a port. However, availability is extended to inland locations by a complex network of surface carriers providing connecting service. As a result, most shippers in the United States have access to a deep water port in a matter of days, or at most two weeks.

e. Handling

An ocean shipment will normally involve a considerable amount of transfer, handling, and time in transit. Each of these factors increases the potential for loss and damage. Therefore, proper protection and packaging is essential in moving goods by water.

4. Air Carriers

a. Speed

Compared to ocean transportation, air has an obvious advantage in speed. A shipment leaving a United States international airport in the evening can reach most large cities in the world by the next morning or afternoon at the latest.

b. Schedules and frequency

International air carriers have continued to increase the frequency of flights. For most export needs, daily departures are normally available, and it is now quite common to have several daily flights between major cities. Frequently air cargo departures are in the evening. This conforms to airline needs for maximum utilization of facilities and equipment, but also coincides well with small shippers' needs to dispatch most of their shipments toward the end of the day.

c. Capabilities

The dimensions of air carrier capabilities are determined by the lift capacity of the aircraft and the design of its fuselage. This severely limits the magnitude (size, weight, volume) of items that may be transported by air. However, this should bear on the decision to use air transportation only to the extent that these limitations dictate absolute maximums which cannot be exceeded.

It should not automatically be concluded that shipping anything larger than watches or spark plugs by air would be inappropriate. Air carriers can readily advise an exporter of the physical limitations of cargo accepted for carriage.

d. Availability

Availability of air service is determined both by the transport facilities in the originating region and by the facilities available at destination. Not only must both regions or countries have connecting air freight service, but adequate pick-up and delivery services must also be available.

e. Handling

One of the principal economies of air shipment (versus ocean shipment) is that packing costs are often substantially reduced by the use of air freight. Ocean shipments require heavy crating, considerable protective padding, steel strapping, and waterproofing. The nature of cargo handling in air movements eliminates the need for costly packing and usually reduces the level of loss and damage. Ground handling of air freight has been greatly improved by the advent of automated terminal facilities. In addition, the use of air containers has brought efficiencies to carrier operations and cost savings to shippers. Not only are rate incentives offered for container use, but savings also come to the exporter from lower packaging costs and reduced pilferage.

D. Ratemaking and Pricing

1. Domestic United States

a. Regulation

In domestic transportation, government agencies play an active role in regulating ratemaking and rate publication. The Interstate Commerce Commission regulates surface carriers and the Civil Aeronautics Board regulates air carriers engaged in interstate transportation. State governments have authority over the economic regulation of intra-state movements.

b. Rate bureaus

Domestic carriers are allowed by law to form rate bureaus through which joint action can be taken to establish rates. These rate bureaus are organized regionally; the "boundary"lines and size of area covered vary from mode to mode as well as within mode.

c. Rates

A "rate" in transportation is synonymous with price. As prices are quoted in dollars and cents per unit (e.g., per pound, per board foot, etc.) so are rates quoted in cents per hundredweight (cwt.) and tons. In the United States rates are published (as required by law) in tariffs. Freight rates fall into three broad categories.

(1) Class rates

Class rates are based on the transportation characteristics of the commodity (weight, volume, ease of loading and discharging, etc.) and on distance and other characteristics related to the movement. For simplification, a large number of commodities have been reduced to a very much smaller number of groups or "classes." In each group are found commodities having the same or similar transportation characteristics. A percentage rating (e.g., 70%, 400% etc.) has been established for each group. Individual articles are published in alphabetical lists known as classifications, where the percentage ratings are shown.

In this scheme one may think of the 100 percent rating (i.e., Class 100, also formerly known as Class 1 or First Class) as reflecting in some sense an "ideal" commodity for transportation purposes. Such a commodity tends to utilize the weight and volume capacity of the vehicle, it is not a "high" nor a "low" value item, it has some sort of "average" susceptibility to loss and damage, and is "average" relative to handling and many other characteristics. A rating assigned to an individual item reflects the "deviation" of this item from the "ideal." Thus, a relatively low valued article which would not move unless given a low rating may be rated 70, whereas a low-weight, high-volume (i.e., low density) item may be rated 150.

The ratings found in the classification are used in conjunction with a schedule (tariff) which shows the rate or price per hundredweight (cwt.) for moving commodities with Class 100 ratings for various distances. These rates are "tapered," i.e., they do not increase in proportion to distance. Thus the Class 100 rate for 100 miles may be 114¢ (1.14¢/mile), whereas the rate for 200 miles may be 149¢ (0.75¢/mile). By combining the classification and the tariff the total freight charges may be computed. For example, a commodity rated 70 and moving 100 miles (using the above figures) would be charged 70 percent of the 149¢ or

104¢ (149¢ x .70) whereas a commodity rated 150 would move at 224¢/cwt. (149¢ x 1.50).

Although rates and ratings are two different concepts, they are completely inter-dependent in the class rate structure. The discussion of these concepts here is a simplification of various different existing class rate schemes; however, the basic philosophy underlying each is the same.

(2) <u>Commodity rates</u>

Commodity rates are prices quoted for specific commodities. These rates are published in commodity tariffs and may not be applied to other than the named articles. In addition to this restriction, these rates apply only between named points with the requirement that the shipper must tender certain minimum quantities for the rate to be granted. Commodity rates are normally applied to bulk commodities moving in large quantities.

(3) <u>Special service rates</u>

Special services such as heating, refrigeration, local switching, diversion and reconsignment, stopping in transit, pickup and delivery and many others may be performed by carriers. These services are subject to charges in addition to those charged for the line-haul (i.e., intercity) movement.

(4) Export-import rates

Export and import rates apply to domestically originated or destined goods moving to or from a port. They are frequently considerably lower than the domestic rate for the same movement. However, these lower rates are not required by law (although they are permissible) and do not exist on all products. Export and import rates are frequently structured in a manner designed to equalize port advantages.

2. International

a. Ocean carrier conference system

A steamship conference is a voluntary association of ocean carriers formed for the purpose of regulating price and other competitive matters.

There are more than 300 existing steamship freight conferences, each serving a different international trade route. Each conference is composed of several shipping lines serving the same route. Although conferences may form groups to achieve greater administrative economies (for example, one of these groups, the

"Associated Latin American Freight Conferences," is composed of ten separate conferences which share the same chairman and office space), they act completely independently when setting rates and establishing conference policy. The primary purposes of conferences are establishment of uniform rates, development of trade practices, promotion of trade between the countries which their members serve, and restriction or elimination of non-conference competition.

Conferences began in the late 1800's when an oversupply of shipping capacity triggered severe rate wars. These rate wars resulted in poor service and posed serious threats to the future of existing shipping lines. Therefore, conferences were formed to regularize the rate structure and competitive practices. After the turn of the century there was heated controversy over the legality of conference agreements. After a four-year investigation, the Congress of the United States passed the Shipping Act of 1916 which affirmed the legality of conferences and established their exemption from anti-trust laws.

(1) Rate formulation

Of greatest interest to the exporter is the fact that conferences establish and public uniform rates. There are several factors which go into the setting of rates. The most important of these are the physical characteristics of the shipment (weight, space required in vessel, unusual dimensions) and the distance of the movement. However, a number of other factors (such as the volume of traffic between the ports involved, the nature of the port facilities at each end, and the cargo's susceptibility to damage and pilferage) play significant roles in rate determination. Although rates are "fixed" by the conferences, they are far from being unchangeable. Not only are conferences subject to competition from outside or independent carriers but they are also subject to shipper pressure for lower or special rates. Shippers are often given lower rates when moving cargo for development projects of major economic importance. Examples of such projects would be construction of large factories, dams, power plants, or major tourist facilities. In these cases conference carriers might lower their present revenues in anticipation of generating larger revenues in the future. Conferences also give consideration to well-documented shipper requests for rate reductions based on grave competitive situations or other hardships.

(2) Dual rate system

Conferences often grant lower rates (cf. discounts) to shippers who commit themselves to give 100 percent of their business to member lines. The reductions usually fall within a range of 10 to 25 percent, and the resulting rate is referred to as a contract rate. This dual rate system has often been challenged as being discriminatory. Conference lines, however, defend it on the basis that a means of assuring a stable share of trade on a given route is needed if the risk and expense of providing regularly scheduled services is to be covered.

(3) Rate quotations

Ocean rates on general cargo are quoted on both a weight and a volume basis, with the carrier having the option of applying that basis which yields the highest revenue. Rate quotations generally take one of the two following forms: "one ton, weight or measurement, ship's option" - a ton by weight is generally 2,240 pounds and a ton by measurement is 40 cubic feet (the exact weight-volume relationships vary somewhat with geography and trades); or "measurement rate/weight rate" - for example, 25/63 would mean $.25 per cubic foot or $.63 per one hundred pounds, whichever would yield the highest revenue.

b. Air carrier conference system

(1) International air transport association

A conference system also exists in international air transportation; however, it differs in structure from ocean carrier conference systems. Some 100 international airlines are united under the auspices of the International Air Transport Association (IATA). For the matter of working out rate proposals, IATA is broken down into three Traffic Conferences, each of which is concerned with movements within a separate geographic area, i.e., North and South Atlantic, Europe and the Middle East, and Asia and the trans-Pacific. Each of these conferences has standing committees on costs, rates and administration of agents. All action taken by these Traffic Conferences regarding rates and fares must receive a unanimous affirmative vote. IATA agreements are subject to the approval of the governments involved.

(2) Rate formulation

In air transport, as in ocean transport, there is a considerable number of variables which affect the rate making decision. The most important of these are size (weight, volume and shape), density, value, packaging, and susceptibility to loss and damage. Rates are of two types: general commodity and specific commodity. Both are quoted on a per-pound basis and are characterized by break-point discounts to encourage larger volume. Rates apply on an airport to airport basis; however, most carriers have existing arrangements under which pick-up and delivery services can be secured.

Relations between domestic and international air carriers have been formalized into interline agreements which provide for the transfer of cargoes from domestic to international carriers without additional charge to shippers.

E. Duties and Liabilities of Domestic Carriers

1. Common Carriers

Under United States law common carriers are required to fulfill four duties or responsibilities. These are the duties to serve, to deliver, to charge reasonable rates, and to avoid discrimination.

a. Service

This duty not only requires the carrier to serve but also obligates him to perform his services with reasonable dispatch and to maintain his facilities in reasonably good condition.

b. Delivery

Delivery in good order of goods received for shipment is a strict carrier duty (with several limitations). Common and statutory laws do not hold carriers liable for loss and damage due to Acts of God, Acts of the public enemy, Acts of the shipper, Acts of public authority, and the inherent vice (or nature) of the goods. These limitations, however, are not in effect when the carrier is negligent. The burden of proof to show cause of loss and non-negligence is on the carrier. Liability begins when a carrier receives the goods and ends upon delivery to the correct consignee. Usually the common carrier's duty to deliver ceases when an attempt to deliver or a reasonable notice of arrival of the shipment has been given to the consignee.

c. Reasonable rates

Rate control has been delegated to appropriate state and federal regulatory agencies or commissions. Commission decisions are subject to judicial review. Carriers may only charge approved rates.

d. Nondiscrimination

Discrimination refers to giving different treatment under like circumstances or giving similar treatment under different circumstances. This can be in the form of price or service discrimination, and can be against types of traffic, persons, places, or organizations. It is important to note that it is only "undue" discrimination which is illegal.

2. Contract Carriers

Contract carriers are not subject to the same obligations as common carriers. Their obligations are determined by the terms of the contract entered into with shippers. There is a requirement, however, that contract carriers operate services which are not contrary to public interest.

F. Duties and Liabilities of International Carriers

1. Ocean Carriers

Ocean carriers transporting goods to or from United States ports in foreign trade are subject to the provisions of the Carriage of Goods by Sea Act of 1936 (COGSA). This act delineates the rights and responsibilities of the parties involved in international ocean transportation.

Under COGSA, a carrier is required to exercise due diligence before and at the start of a voyage to make the ship seaworthy, to properly man, equip and supply the vessel, and to make the holds fit and safe for reception, carriage and preservation of the cargo. There is also a requirement of proper handling. This includes appropriate and careful loading, handling, carrying, keeping, caring for, and discharging of the cargo.

Upon receipt of goods a carrier is obligated to issue a bill of lading showing identifying marks of cargo, number of packages, or quantity or weight, as furnished by the shipper in writing, and the apparent order and condition of goods. Carriers are not allowed to contractually limit their liability except under special circumstances provided for in the COGSA.

In addition to the limitations of liability to which domestic common carriers are entitled (Acts of God, public enemies, public authority, shippers, and the inherent nature of the goods), ocean carriers are entitled to a number of additional exemptions. These include unseaworthiness unless caused by failure to exercise due diligence; errors in navigation or management of the ship; fire unless caused by the carrier; perils of the sea; saving or attempting to save life or property while at sea; insufficiency of packing or marking; and latent defects and any other cause arising without the fault, neglect or privity of the carrier or his agents. In addition to this, COGSA provides for maximum monetary limitations per customary freight unit.

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2. Air Carriers

The Warsaw Convention, adopted in 1929, is a multilateral agreement which enumerates the liabilities of international air carriers. In general, air carrier liabilities parallel closely those of water carriers. That is, as well as having the exemptions given domestic common carriers, international air carriers are exempt from liability for loss or damage caused by errors in piloting, navigation, and handling of the aircraft, as long as the carrier can demonstrate that due diligence has been exercised.

XI. PORTS AND AIRPORTS

A. Introduction

The word port is derived from the Latin porta meaning gate. This gradually acquired the meaning of gateway from land to sea or vice versa. With the development of air transportation the concept of a gateway has been retained; however, the emphasis on land and sea has diminished so that seaports and airports today are thought of as gateways facilitating transportation between regions. These regions may be within the same national political jurisdiction or may be located in separate countries.

In the case of seaports the first requirement is that it affords adequate shelter to ships. By shelter is meant protection against the elements (i.e., against the action of winds, waves, etc.). Such protection is offered by a harbor which may be natural, as in the case of San Francisco Bay, or man-made, as in the case of Los Angeles Harbor. In a similar fashion airports must be so located that the effects of weather are minimized to insure year-round usage. Without appropriate shelter commercial routines cannot be carried out efficiently.

In order to carry on trade and commercial transportation operations, ports must have navigation facilities; piers (or loading and discharging platforms or areas); warehouses; cranes and other equipment for cargo handling; repair and other facilities for fueling, servicing, and acquisition of supplies;

and there must be adequate organizational and physical arrangements to provide connection with other modes of transportation serving the "hinterland."

The port "hinterland" (a term derived from German, meaning "the land behind") is the tributory area behind the port. This area may be contributory meaning that it is source of origin for outbound traffic (e.g., exports), or it may be distributory which means that it is the destination for inbound traffic. The hinterland may also be a combination of the two.

The geographical boundary of the hinterland is not easily drawn on a map; it can be drawn only with reference to particular traffic; consequently the delineation of the hinterland serviced by a particular port or airport can only be made if distinction is made between inbound and outbound traffic, and between passengers and cargo. For cargo, a distinction must often be made between commodities. The hinterland may be determined by the rate structure of the port in combination with the rate structures of the various modes of transportation connecting the port with the hinterland.

Ports (sea and air) may be viewed as critical interchange points for the various modes of transportation. The organization, design, structure and capacity of ports may impose limitations on or facilitate international and domestic trade. Ports provide an essential link in the long chain of transportation which connects producers and consumers, particularly in overseas trade.

B. Function

1. Seaports

Carrier freight rates are based partly on the speed of ship "turn-around." The time a ship is delayed in port represents a significant cost factor, which in turn further increases the total "in-port" cargo handling expenses. To reduce critical ship turn-around time, carriers and port authorities are placing great emphasis on improving and modernizing conventional cargo handling equipment, as well as converting to container ports to the extent practicable.

The primary function of a port is to facilitate the transit of goods; its secondary function is the warehousing of cargoes for storage or processing.

2. Airports

Airports provide facilities for aircraft shelter, supply, and repair, and for the regular reception or discharge of air passengers and cargo. With the tremendous increase in air cargo traffic, more geographical separation of passenger air terminals from all-cargo air terminals is indicated.

Also located in all major United States airports are Federal Aviation Administration (FAA) operating detachments charged with the responsibility for controlling airspace and insuring safe operations.

With the advent of jumbo jets and all-cargo aircraft of greater speed and increased capacity, air cargo movements (domestic and overseas) will probably continue to make substantial strides. Hence, airports with sufficient supporting capacity, flexibility, and innovation potential are essential to cope with growing cargo tonnage movements. Future functions of airports will include more foreign trade zones, as air cargo movements increase at projected rates. Whereas seaports are generally limited to coastal locations, airports have more site flexibility and are normally limited only by economic and environmental considerations.

C. Services

Services provided by port operations fall into the general categories of those furnished to ships, those rendered for cargo, and those made available to shippers.

1. Seaports

a. Ship services

Typical services provided to ships encompass repair, handling, protection, supply and maintenance. These services include dry docking and ship repair facilities, pilotage, anchorage, dockage and wharfage, line handling, protection and security, ship fumigation, quarantine service, ship cleaning, fresh water, oil bunkers (fueling), launch service, and dunnage (lumber and other materials used to brace and protect cargo), as well as services to insure proper stowage and securing of cargo.

b. Cargo services

(1) Stevedoring

Included herein are loading, stowage, and discharging of ships' cargoes. Where possible, loading or discharge is performed directly from ships to connecting conveyances delivering or picking up cargo, e.g., loading directly from rail flat cars to a ship's hold.

(2) Warehousing

For cargo awaiting further movement, transfer, or otherwise requiring storage, availability of adequate warehousing sheds and services is an important criterion in evaluating a port's service potential.

(3) Export packing

Considerable cost savings can be obtained by the use of specialists (export packers), who know cargo packing and protection requirements of originating and destination countries.

(4) Heavy lift

This service is generally in the form of land-based or floating cranes or derricks to load and off-load cargo which cannot be handled by a ship's own gear or land cranes. Lack of heavy-lift capacity by intended ports of call may place severe limitations on carrier acceptance and expedition of certain cargo.

(5) Inspection and testing

Ports generally provide this service to determine whether export quality specifications are being met. Inspection and testing companies are normally represented at ports to perform the necessary work of weighing, sampling, analyzing, and inspecting; some specialize in certain types of cargo, others handle all types.

(6) Fumigation of cargo

Facilities for this service are usually provided at ports by established and experienced firms. Cargo fumigation is required by government regulation in the United States and abroad for a number of imported commodities (e.g., seeds, grain, tobacco, fruit, fibers, and used clothing). An additional convenience to the importer, offered in certain ports, is the fumigation of cargo while it remains in trailers or vans, without the necessity of unloading and reloading.

(7) Domestic freight forwarders

Although domestic freight forwarders, unlike international freight forwarders, are concerned only with actual transportation of freight by domestic carriers, they also handle the inland movement of overseas as well as domestic freight.

c. Services to the shipper

As opposed to those which serve either ships or cargo directly, a number of organizations in many ports offer services which are furnished principally to the overseas trader, whether he is an importer or exporter.

(1) Freight forwarders and customshouse brokers

Foreign (international) freight forwarders and customshouse brokers perform innumerable services connected with documentation, expedition and routing of cargo, and general supervision over the transit of a shipment through a port.

(2) Banks

United States and foreign banks finance foreign trade and offer many advisory services.

(3) Marine insurance underwriters and brokers

This group is concerned with the insurance of cargo against loss and damage.

(4) Public and private agencies

Federal, state, city, and commerce agencies give advice and information to shippers, see that proper facilities are provided in ports, and protect the shipper's interests generally.

(5) Foreign agencies

Foreign government agencies and trade organizations issue and process necessary foreign documentation and promote development of foreign trade through information and exhibits.

(6) Reference publication service

Many ports also maintain an extensive current reference publication service covering vital information on foreign trade and shipping affecting the host port. Overseas traders or their agents usually will find such updated reference accommodations to be indispensable.

2. Airports

Services provided by airports can be categorized as those provided to aircraft, to passengers, and to shippers and their cargo.

a. Aircraft services

Airports render fueling, maintenance, repair, and other services related to the operation of commercial aircraft. Airports also provide for the maintenance and upkeep of landing and departure facilities, supporting administrative complexes, and accommodations for necessary weather information and air traffic control services.

b. Passenger services

The phenominal rise in air passenger traffic has resulted in the expansion and modernization of air terminals to meet the growing complexity of mass passenger movements. Airlines and communities have endeavored to meet the increased demands in passenger traffic with greater flexibility and more responsive service.

c. Shipper and cargo services

With the increased hauling capacity of combination passenger/cargo planes and the advent of "jumbo all-cargo" jets, air cargo shipments can no longer be thought of as representing "small, light weight commodities of high value." The sizes of all-cargo aircraft have increased to the point where the largest have cargo compartments with the capacity of railroad boxcars. Increased volume of air shipments may bring about lower costs of air cargo movements. Hence, in the marketing of commodities, international traders may now realistically consider the merits of air transport in the light of total physical distribution costs.

d. Air cargo categories

Airports provide necessary services to handle the different categories of air cargo.

(1) Air freight

General air freight represents the greatest volume of air cargo traffic. This requires maximum concentration of cargo handling, inspection, and documentation services and equipment.

(2) Air express

Air express service is offered in cooperation with REA Express through interchanges with other modes. This provides a fast and usually most reliable air service. It is generally best suited for small shipments.

(3) Air parcel post

The United States Post Office provides non-express movement of small shipments.

(4) Other

Other air cargo services available include bus-air interchange service available to areas isolated from major airports as well as "air truck service," which incorporates pickup and delivery of air shipments by truck with line-haul movement by air.

Services normally available to shippers at seaports can generally be thought of as applying equally well to airports--allowing for differences in the scope and peculiarities of air movement.

D. Facilities

1. Seaports

To accommodate ships, cargo, and shippers with services previously described, ports are expected to maintain a number of facilities.

a. Channels

Suitable channel depths must be dredged to permit arrival, departure, and docking of modern ships.

b. Piers and wharves

Adequate docks must be built in order for ships to load and discharge cargoes.

c. Lighterage

Small craft (e.g., barges or scows) used to load and discharge cargoes where berthing of ships is not feasible, must be available. Lighterage also refers to the transfer of rail freight, including entire rail cars, by car float to ships. Loading and unloading of ships by means of lighters is normally supplemental to shore-based methods at most modern ports. However, it must be recognized that many ports, particularly those of developing countries, use the slower lighterage method of cargo handling due to nonavailability or inaccessibility of dockage areas.

d. Interchange between rail and water

Availability of intraport area trackage is preferred to the car float. Port and pier area trackage permits connection with main line rail systems and contributes to efficient direct cargo loading and discharge.

e. Road nets and improved areas

Adequate road nets and sufficient paved areas enable ports to expedite through-put of cargo on truck-ship interchange movements.

f. Cargo handling equipment

Heavy lift and standard shore-based cranes, as well as adequate and suitable material handling equipment (e.g., forklifts and warehouse-type tractors) are indispensable to modern port operations. Material handling equipment, as well as necessary cargo handling gear for unit loads and general cargo (e.g., slings, nets, conveyors and pallets), are normally provided by stevedoring companies servicing ports.

g. Storage facilities

Adequate warehouse facilities, sheds, open cargo storage areas, and elevators for handling bulk cargoes (e.g., grain elevators) are required to accommodate temporary and permanent storage of goods.

h. Container facilities

Container loading and offloading derricks to accommodate container ships (to include special tractors and chassis-type trailers for the surface on-movement of containers) are desirable. Specialized container ports accommodate loading and discharge of container ships.

2. Airports.

a. Flight facilities

Commercial airport equipment must, as a minimum, include paved runways, taxiways, aprons, fueling facilities, hangars, lighting and guidance systems, to support aircraft operations.

b. Passenger terminals

Terminal buildings house administrative offices, flight operations, traffic control departments, and other facilities designed principally to support passenger processing.

c. Cargo terminals

Facilities available at modern air cargo terminals include warehousing and storage locations to facilitate cargo concentration, segregation, and trans-shipment. Also found here are materials-handling equipment, conveyors, hoisting apparatus, and varieties of cargo handling gear (e.g., pallets, slings, containers, etc.) which permit efficient movement, loading, and discharge of air cargo.

d. Interchange facilities

Appropriate areas for reception and dispatch of surface pickup and delivery vehicles must be provided.

e. Customer service facilities

Operations and contact centers for air freight forwarders, customs brokers, export packers, and other specialists providing services to overseas traders are found on the premises or at locations near major airports.

Operations and control areas for government agencies (e.g., customs and health officials) connected with the export and import of air cargo must also be accommodated.

E. Rates, Charges, and Special Port Requirements

1. Seaports

Ports generally derive their revenues from charges for the services they render and the facilities they make available.

a. Standard port charges

Regular route steam ship lines (liner or berth) service normally absorb standard port charges incidental to cargo handling; such charges are incorporated as part of the quoted ocean freight rates. In cases where shippers are required to pay standard port charges for loading and discharging of shipments, traders are urged to determine specific rates from port authorities or agents.

b. Ship service revenues

Ship service revenues, generally derived by ports include fees for line handling, dockage ("parking fee for ship"), and wharfage (fee assessed for moving cargo across the wharf); the latter charge may be levied against shippers if it is not included as a part of the freight rate.

c. Special concessions and penalties

Shippers should also consult carriers or port authorities concerning special concessions on warehouse storage time and extended demurrage time that may be permitted in connection with export-import rail movements. Demurrage refers to penalty charges levied against the shipper who holds carrier equipment (e.g., a rail car) beyond the time authorized by the carrier.

d. Reference and assistance available

Port charges, practices, and special requirements affecting the movement of cargo through ports, vary for different sections of the United States and overseas. Hence, overseas traders are cautioned to consult carriers, freight forwarders, agents, or brokers for updated complete citations of rates, charges, and special requirements that may apply to cargo movements through ports, as well as accessorial services that may be rendered by specialists. One bibliographical reference that may be consulted is PORTS OF THE WORLD, which provides full details of port conditions, facilities, expenses, and special requirements.

e. Special charges

Other principal categories of special charges include:

(1) Heavy lift fees

These fees are generally assessed for all lifts above prescribed minimum weights (varying from two to five tons), depending on rate schedules involved.

(2) Pier delivery and pick-up service for cargo

This particular charge may be reduced significantly by the use of the services of domestic freight forwarders. For example, when a shipper can offer moderately large quantities of overseas cargo, a domestic forwarder can often save him pier delivery and pick-up charges frequently assessed by other carriers on similar quantities of foreign shipments. As a common carrier, a domestic freight forwarder obtains one free pier delivery or pick-up allowable for each shipment meeting a specified minimum weight. The minimum weight requirements are usually such as to make this service attractive for the movement of less-than-carload and less-than-truckload quantities at comparable rates.

f. Export-import rail rates (rail to port)

Shippers should check with the rail carrier which they plan to use to determine applicable provisions for reduced export-import rail rates. Such rates may be either the result of government-authorized rail rates that are lower than they would be for transporting the same products in domestic markets, or they may be attributable to differential rail rates.

2. Airports

a. General revenue sources

Basic revenue sources for airports are derived from landing fees from commercial operations, fixed base and other flying operations (e.g., flight instruction, charter and contract services), and hangar rentals, as well as aircraft storage.

Space rental in terminal buildings for related aviation activities (e.g., weather bureau, customs and immigration services, airline ticketing offices) contribute additional general revenues.

Industrial area rentals in various sections of the airport (e.g., air freight warehouses) provide supplemental income.

b. Concessions and franchises

Airports obtain additional revenues from concession-type sales of gas, oil, aircraft, parts, and accessories. Significant concession revenues are also derived from space rental of terminal buildings for non-aeronautical activities such as restaurants, tourist bureaus, baggage lockers, and various recreational facilities.

Franchises to companies providing surface transportation for passengers between airports and surrounding areas result in added revenues, as well as providing reliable ground feeder service for airlines.

c. Special charges

Airports levy special charges in connection with domestic and international air cargo shipments.

(1) Pickup and delivery

Special charges may be assessed for surface vehicle pickup and delivery services where such services are not part of the regularly quoted freight rate.

(2) Cargo relocation and servicing

Additional fees are generally imposed for relocation and other servicing of cargo preparatory or subsequent to air movement.

(3) Storage

Warehousing, regular storage, and cold storage services normally require special charges.

(4) Special services

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Airports charge extra for such additional services as repacking, recrating, measuring, weighing, marking, labeling, inspecting and documenting.

d. Information on rates and charges

International traders should consult with carriers and airport authorities concerning information and confirmation of special charges, rates, and other requirements connected with air cargo shipments. Additionally, overseas trade specialists (e.g., air freight forwarders, export packers) will provide validated and timely information on rates, fees, and special demands related to air shipments.

The following bibliographical references may be consulted for added information on air cargo traffic: AIR FORWARDER, with directories of forwarders and agents and articles concerning freight forwarder operations: AIR SHIPPERS MANUAL, with rates, air cargo directory, statistics, and air cost analyses.

F. Free Ports and Trade Zones

Overseas traders may find the use of free ports and free trade zones advantageous in shipping and marketing their products. Free port and free trade zones play the following important roles in promoting international commerce: they serve as points for re-export; provide a means for facilitating imports; and establish a vital link in the product distribution channel. In the latter connection, free zones or ports may serve as practical alternatives for establishing facilities overseas. Free port and free trade zone designations are at times used interchangeably, but there is a distinction.

1. Free Ports

Free ports (or free trade ports) normally comprise an enclosed area within or near a port sequestered from the rest of the country for customs purposes. Examples of free ports are Hong Kong, Singapore, and Gibraltar. Except for minimal customs formalities goods may enter such ports duty-free regardless of whether they are intended for re-export or for local consumption. It is primarily the "re-export" consideration that has accounted for the importance of free ports. However, the increasing use of free zones seems to be displacing the position of free trade ports as distribution centers.

2. Free Trade Zones

Free trade zones are generally enclosed protected areas, which are either part of, or near, a port of entry, into which imported goods not otherwise prohibited may be placed without formal customs entry or payment of duty. Within the confines of the zone, goods may be unloaded, stored, sold, exhibited, mixed with other foreign or domestic goods, repacked, cleaned, marked, labeled, graded, assembled, processed, used in manufacturing operations, and/or reshipped. Hence, free trade zones permit the full range of commercial and industrial activity, from simple storage of raw materials to manufacturing and sale. Goods that are re-shipped to foreign destinations may leave a free trade zone without customs supervision, but if these goods are reshipped to domestic destinations, international traders must comply with existing customs laws and procedures.

Free zones are normally operated by a public or a private corporation. In the United States, free trade zones are called Foreign Trade Zones; these zones are operated by the Foreign Trade Zone Board, consisting of the Secretaries of Commerce, Treasury, and the Army. In the United States, special-purpose sub-zones may be established; they are usually located apart from the Foreign Trade Zones (e.g., a manufacturer's existing plant may be designated as such a sub-zone) to allow additional storing, assembling, processing, or manufacturing of goods.

3. Functions

Discharge of goods directly to the zones, from ships or aircraft, is a major function of free zones and ports. This often is of great value to international traders. It may also be advantageous to mail foreign goods directly to a free zone, e.g., small imported shipments. Such imported goods may be re-shipped to other countries or, when appropriate, imported into the country hosting the zone. Imported goods may be sent to zones without formal customs entry, payment of duty, or furnishing of bond.

Transportation and customs costs may be reduced by shipping goods in disassembled form, e.g., furniture, to a zone for assembly and subsequent import or re-export.,

Display and exhibit of merchandise at free zones by foreign trade firms is permitted, so that orders may be taken for unlimited time periods without requirement of duty payment for displayed merchandise.

G. Organization of Ports

1. Types of Management

Port management systems are generally of four types: government, municipal, corporate, and private. Government-operated ports usually express the national foreign policy; the flow of trade may be a direct reflection of the nature of that policy. Ports operated by municipalities may be hampered in managerial effectiveness if the parochial interests of the immediate area of the port is permitted to interfere with the goal of the greater regional or national area being served. Corporate-operated ports are said to be relatively free from political bias, but may be limited in obtaining capital for needed expansion. Privately operated ports are thought to be more efficiency oriented, but limited capital may pose significant constraints on the efficiency of their operations.

In view of the importance of ports to the national economy and international trade, there has been a tendency to place port operations under the control of port authorities.

2. Description of Port Authorities

Port authorities are generally subdivisions of local governments (e.g., cities, counties, states) authorized to provide, operate, and maintain terminal, transportation, and other facilities of commerce; they are designed to aid the economy of their respective local or state governments.

Port authorities are usually empowered by local governments or states to purchase, construct, lease, and/or operate any terminal or transportation facilities within a port district. These authorities prescribe charges (approved by regulatory agencies) for services rendered by their facilities so as to attempt to make the port financially self-supporting. Although port authorities are usually associated with the operation of terminals (sea and/or air), they are also formed to operate public projects such as transit systems, industrial developments, tunnels, and toll bridges.

3. Typical Services Provided by Port Authorities

Typical services furnished by port authorities in operating terminals (sea and/or air), extending to a prescribed radius of that area, are:

a. Provision of facilities

Provision of necessary facilities, equipment, and improvements to render effective service to carriers and shippers is one of the principal endeavors of port authorities.

b. Representation

Port authorities make every effort to secure favorable transportation rates and related charges in order to permit trade expansion for their area of operation. Port authorities represent their ports in hearings with regulatory agencies to obtain favorable rate structures.

c. Documentation simplification

Conversion to simplified systems of terminal documentation for ocean shipments, so as to improve the economy and efficiency of moving foreign commerce through the port, is another aim of port authorities.

d. Research

Port authorities engage in research studies, designed to increase transit trade and improve port service in keeping with technological change (e.g., containerization, computerization, etc.).

e. Port information and reference services

Information as to facilities, services, and other data concerning ports may be obtained by exporters and importers from Chambers of Commerce and port authorities of most port cities of the United States. For specific questions, shippers may consult individual rail, air, and steamship line traffic bureaus, customhouse brokers, foreign and air freight forwarders, foreign trade departments of local chambers of commerce, and field offices of the Bureau of International Commerce (U.S. Department of Commerce).

Ready reference summaries of information on American ports and their facilities and services are contained in the following publications:

> Custom House Guide. Activities, facilities, charges, customs officials, port authorities, chambers of commerce, and directory of the shipping and allied trades.

> Exporters' Encyclopedia. Ports and facilities, steamship companies, freight forwarders, and customs brokers.

XII. SERVICES OF INTERNATIONAL SPECIALISTS

The intricacies of international trade are such that considerable technical knowledge is necessary to the handling of shipments beyond the continental limits of the United States. The extensiveness of the responsibilities of the physical distribution manager for the handling of such shipments depends in part upon the organizational makeup which has been created to handle foreign trade. The services of the Traffic Department are an important factor and, indeed, can be the decisive factor in the success of a firm's overseas business.

A. Methods of Exporting

There are two general ways a firm can go about exporting--<u>indirect</u> export and <u>direct</u> export. These two methods of organizing for export differ in regard to how the exporter carries out the flow of transactions between himself and the foreign importer or buyer.

1. Direct Export

In direct export all the responsibility for taking care of international selling activities is in the hands of the producer. These activities are carried out by so-called <u>dependent</u> organizations that are administratively a part of the producer's own company. Such dependent organizations may take several forms. There may be a domestic-based department or division to take care of the foreign sales transaction. The producer may establish overseas sales branches in important foreign market areas. Or the producer may want to establish a separate overseas sales subsidiary. Another alternative is to use an overseas storage or warehousing facility. The producer may also employ travelling salesmen in foreign markets, who may or may not be assigned to a branch office. Finally, overseas-based distributors and agents may be used to serve foreign markets directly. The producer must choose the most appropriate method by considering many complex factors, and the total responsibility for carrying out the transaction falls on him. For this reason many firms, especially those just beginning in exporting, turn to indirect exporting.

2. Indirect Export

In indirect export the producer uses the services of several types of *independent* international marketing middlemen. Thus, when a producer exports indirectly, responsibility for carrying out the selling task is transferred to some other organization.

a. Advantages

Some of the advantages of using the services of these international specialists are as follows:

(1) Minimum capital outlay and operating expenses are required by the producer;

(2) Marketing abroad through a middleman may require no more time and effort than making a domestic sale;

(3) Foreign sales can be built up quickly, since most middlemen have already established channels in the overseas areas and may have ready markets for the producer's product(s);

(4) There is less risk for the manufacturer, which is particularly important to the business firm;

(5) Sales opportunities which may not be accessible otherwise, may be made available.

b. Disadvantages

There are also disadvantages to indirect exporting, including the following:

(1) The middlemen may not promote the producer's product actively;

(2) Middlemen may not provide permanent sales channels, but rather may shift their source of supply to another producer where greater profits are possible;

(3) Costs of international sales through middlemen tend to rise in proportion to volume;

(4) The producer is excluded from direct sales effort and promotion. [illegible] goodwill accrues to the [illegible] instead of to the producer.

B. **Facilitating Agencies [illegible] Physical Movement of Goods**

1. Foreign Freight Forwarders

Foreign freight forwarders hold an important position in the international marketing structure of physical distribution. A manufacturer desiring to build up the foreign markets and to concentrate all his energies on selling will find the experienced foreign freight forwarder an invaluable aid in shipping. It should be pointed out that the freight forwarder is not an export marketing middleman. But, at the same time he can be a valuable ally for the export department, and can be used to advantage in handling foreign business.

a. Nature

The freight forwarder is an independent businessman who has no financial interest in the merchandise. He can do almost anything connected with an export shipment, except manufacture and sell the product. His ability to arrange for overall and firm door-to-door transport offers enables exporters to meet increasing demand from foreign importers for quotations on "delivered" terms. Both the inexperienced trader and the regular trader may often decide to make full or partial use of the services of a freight forwarder.

b. <u>Services</u>

Specifically, some of the services provided by a freight forwarder are as follows: explaining terms of shipment; working out export costs; paying all charges (and then sending the exporter a single bill) or giving firm overall offers for the services required by the exporter, arranging and advising on packing, marking, and labeling of goods; selecting the means of transport and organising the transport operation; arranging for transportation insurance; carrying out the necessary documentation and formalities including customs clearing; making the necessary communications; advising on new developments in the transport field, including new ways of unitizing cargo. This is not a complete list of the services of the freight forwarder, whose activities vary in extent and character from industry to industry and from country to country.

c. <u>Advantages</u>

The advantages of the freight forwarder, particularly to the inexperienced exporter, are obvious.

Although he can perform every necessary physical distribution service from the time the order is placed until shipment is delivered at the point of destination abroad, the forwarder's most important contribution is performing the traffic and documentation functions on international freight movements. Also, because it is possible for the forwarder to consolidate small shipments into larger ones, he can often obtain lower shipping rates than any individual shipper could get directly from carriers. This saving can then be passed on to the exporter.

d. Air freight forwarder

With regard to shipment by air, it should be mentioned that while most freight forwarders handle shipments by air as a routine service, some forwarders specialize in air shipments. Air freight forwarders offer documentation and transportation services from point of origin to point of destination. It should be noted, however, that there is one distinct difference between ocean and air forwarders, at least in the United States, that may affect the degree of protection enjoyed by the exporter. The United States Civil Aeronautics Board has ruled that the air freight forwarder is an "indirect carrier." As such, he has common carrier's liability and must make good on any loss or damage suffered at any point en route. This is not the case for the regular cheap foreign freight forwarder.

e. Selecting freight forwarders

In choosing a freight forwarder to handle his business, the exporter should consider several factors. First are the forwarder's charges. While freight forwarders generally charge approximately the same amount for the same service, this is not always the case. Speed of service may also be an important factor to take into account.

The forwarder's financial resources is another factor. Usually the forwarder pays inland transportation charges, documentation fees, freight bills and other charges, and later collects from his client. He needs adequate financial resources to cover these expenses.

Size and training of the forwarder's organization are also important. Is the staff large enough to make speedy and efficient service possible? Is it well trained in fields such as documentation, marking and labeling regulations? Is it abreast of the latest requirements and changes in documentation?

Other factors are the forwarder's reputation, his field of specialization, and his connections abroad.

With regard to the latter, some forwarders are able to offer services not strictly connected with the delivery of the goods. He may send samples ahead and arrange for them to be cleared through customs, or he may arrange for interpreters and guides and make appointments with prospective customers.

2. Customshouse Brokers

The main task of a customshouse broker is to clear imported goods through customs and to act as the importer's agent. He may also receive and forward goods, although he does this as a forwarding agent or as an agent of the foreign shipper. Customshouse brokers are licensed to operate, and as a specialist in expediting shipments through customs they are able to perform all needed services at minimum costs. Normally, customs requirements are so complex that the services of these specialists are necessary.

a. Primary services

Special customs invoices and the bills of lading are sent to the customshouse broker by the importer. Intimate knowledge of the rates of duty prescribed by law enable the former to calculate the appropriate amounts of duty to be paid, based on invoice description of the merchandise. The value of each class of merchandise is calculated separately in the currency of the invoice and then converted to United States dollars. Upon payment of the duty, the broker receives a delivery order, which is then submitted to the importer or a designated carrier. The broker gives close attention to details of inspection and release of goods selected for examination by the customs appraiser, and to the final settlement of duties. In short, the customshouse broker is the personal representative of the importer and is usually given full power of attorney by the importer.

b. Other services

Because the need for assistance by the importer usually does not end when goods are cleared through customs, many customshouse brokers also act as freight forwarders. In this capacity, they will arrange for shipment in the manner specified by the importer. As an agent for a foreign freight forwarder or on behalf of a consignee, the broker forwards in bond merchandise intended for shipment to an interior city or for re-export. Many firms combine the activities of forwarders and customshouse brokers.

3. Custom Attorneys

In regard to customs it should be noted that, because of the highly specialized nature of the proceedings, a special class of lawyers, customs attorneys, has come into existence. These attorneys can aid the trader in such things as appeals from the decisions of customs officers or in proceedings affecting the valuation or classification of merchandise.

4. Public Warehouses, Bonded Warehouses and Foreign Trade Zones

a. Public warehouses

One alternative for the exporter in lieu of setting up his own branch warehouses in foreign markets is to use the services of already existing public warehouses. In selected foreign markets such warehouses can serve as a valuable link in the physical distribution system of the exporter whose operation abroad does not yet justify branch warehouses. Such a branch warehouse may be ruled out either on the basis of irregular storage requirements, or because the volume of trade does not yet make the necessary investment practical. Public warehouses, providing such services as unloading, storing, packing, etc., are being established in many parts of the world.

b. Bonded warehouses

Some public warehouses are designated as customs bonded warehouses. Their purpose is to relieve importers from payment of duty on foreign products that are designated for re-export in unchanged form, and to allow the postponement of the payment of duties required on goods destined for public consumption until such time as the importer desires to remove the goods from the warehouse. Certain manipulations may be performed on goods in bonded warehouses prior to payment of duties. The activities carried on in bonded warehouses are under the strict supervision of customs officials.

c. Foreign trade zones

The foreign trade zone, also called free zone, is a facility similar in function to a bonded warehouse. Technically, however, the two are different. Merchandise held in a foreign trade zone has a status entirely different from merchandise held in a bonded warehouse. As no customs entry is made for merchandise in a foreign trade zone, it is not subject to the various restrictions imposed on imported merchandise. As long as the foreign merchandise remains in the zone, it retains the same status as if it were still in the foreign country. Merchandise in a bonded warehouse, on the other hand, has been passed by customs, but is being held pending payment of duties or re-export.

A foreign trade zone is an isolated, enclosed, and policed area, in or adjacent to a port of entry, furnished with facilities for loading, unloading, storage and reshipping. In such zones, goods may be landed, stored, mixed, blended, manufactured, displayed, repacked and reshipped without payment of duties and without intervention of customs officials. The purpose of these zones is to facilitate traffic in foreign goods which are brought into the country for eventual domestic consumption, and for re-export to foreign markets after having been conditioned, or combined, perhaps with domestic products. In the United States, foreign trade zones are located in New York, New Orleans, San Francisco, Seattle, Toledo, Honolulu, and Mayaguez, Puerto Rico.

5. Export Packers

Adequate packaging and packing methods and an understanding of the transportation phase of the movement of goods are necessary in maintaining foreign markets. Generally, packing considered to be sufficient for domestic shipping is not strong enough to withstand the rigors of export shipping. For this and other reasons, many exporters rely on export packing concerns found in the principal ports and other major cities. These concerns have developed appropriate packing techniques and are experienced in packing shipments for export. Some of these firms will also guarantee safe arrival of the goods at their destination. It is wise to check regularly the work done by packing firms, since occasionally they will "cut corners" on packing specifications, with disastrous results.

Export packing is a service in which the freight forwarder can provide excellent assistance. There are also experienced packing engineers available on a consulting basis to give advice on the subject of export packing. Marine insurance companies, as well as marine insurance brokers, will also give help and advice on packing for overseas shipments.

6. Transportation Insurance and Export Credit Insurance

Loss of or damage to goods while in transit is one of the important risks involved in a foreign transaction. If merchandise placed in the hands of an inland carrier is lost, stolen or damaged, from other than "Acts of God," and a few other common-law and statutory exceptions, the carrier is responsible for such loss and usually pays any reasonable claim. But over the years, overseas carriers have been able to limit drastically their liability for merchandise carried, except where there has been negligence in care and custody of the cargo or the vessel. Insurance, therefore, is an essential element in profitable international trade.

a. Marine insurance

Marine insurance is a contract of indemnity whereby the assurer or underwriter agrees, for a stated premium, to protect and indemnify the shipper and/or owner of the goods against loss, damage, or expense in connection with the goods at risk if the damage is caused by perils specified in the contract. There are many different types of insurance policies which may be obtained to meet specific shipper requirements.

Many traders, expecially smaller ones, do not bother to learn in detail about such insurance; instead they simply ask their freight forwarder to arrange for sufficient coverage. A good forwarder is well acquainted with the many, and often complex, aspects of transportation insurance. The exporter's C.I.F. (cost, insurance and freight) quotation to a foreign customer should stipulate the terms of the insurance which will be furnished. This is necessary so that the exporter has the protection he needs until risk and title passes to the buyer, and so that the buyer is given an opportunity to request broader insurance coverage at his expense if deemed necessary.

An insurance agent or broker is a valuable source of assistance in obtaining transportation insurance. The agent or broker will help select reliable underwriters. He will arrange the amount and kind of protection that the shipper's operations and the nature of the product require, and will be of help in the presentation of claims for losses. Certain insurance brokers or agents specialize in marine insurance.

b. <u>Export credit insurance</u>

The primary purpose of export credit insurance is to protect exporters from losses from credit risks and political risks. The status of foreign buyers can change from day to day, as can political and economic conditions in their countries. Recognizing these risks, and wanting to encourage exports, over twenty of the major trading nations have established plans to protect exporters.

In the United States, export credit insurance is available through the Foreign Credit Insurance Association, composed of private insurance companies and the Export-Import Bank of the United States. Working through the exporter's own insurance agent or broker, FCIA provides short term (up to 180 days) and medium term (181 days to five years) insurance in a comprehensive policy covering both the commercial credit risk and the political and transfer risk on sales to overseas buyers. For those who desire political and transfer risk only, the credit risk then being borne by the exporter, FICA is prepared to write appropriate policies.

C. Agencies Facilitating Transfer of Title

In foreign marketing, as in domestic marketing, there are two main categories of independent wholesale middlemen: merchants and agents. The major difference between the two is that the merchant wholesaler takes title to the merchandise and the agent does not.

1. Export Merchant

The domestic-based export merchant buys and sells on his own account. He may be involved in both exporting and importing, and operates in a manner very similar to a domestic wholesaler. Because he is a merchant, he is free to choose what to buy, where to buy it, and what prices to pay. His operation is usually well financed and may be far-flung, consisting of warehouses, branch offices, docks, transportation facilities, and retail establishments.

The export merchant takes all responsibility for exporting. The producer receives payment from the merchant and makes delivery in his own country. The export merchant not only accepts all the risks of foreign trade, but also handles all the details involved in the transaction. The producer is relieved of all responsibilities related to foreign marketing, advertising, sales, merchandising, delivery and services.

One type of export merchant useful to producers is the export desk jobber, also known as export drop shipper or cable merchant. This merchant obtains firm quotations from producers, usually of raw materials, which are good for a few hours or a few days. Then, based on a knowledge of the markets for these commodities, he contacts correspondents abroad. When the latter respond with firm offers or with acceptances of the quotations, the merchant finalizes the transaction. Such a merchant seldom sees or takes possession of the merchandise. Desk jobbers are specialists in sources and markets for commodities in which they trade. The producer-exporter who uses the services of an export merchant must handle the physical distribution of the products, however.

2. Raw Material Merchant

This is another form of international merchant who usually deals in one commodity, but sometimes several. The emphasis of his business is on imports. His sources of supply are determined by the type of commodity he is dealing in, and he sells the raw materials wherever he can make appropriate arrangements.

3. Resident Buyer

This merchant may represent any type of government or private foreign buyer. He is located in the exporter's own country. Such merchants are representatives of overseas organizations that desire regular and close contact with their foreign sources of supply. The resident buyer may be either a local person who is appointed or a native of his client's country residing in the exporter's country. He takes care of details such as placing the order, specifying the terms of sale, shipping, and making arrangements for financing if the sale is not for cash. The resident buyer can be very useful to an exporter because he is a permanent resident; thus he represents an opportunity to build up a regular business.

4. Export and Import Broker

Such brokers are agents, and as such do not take title to the merchandise. Their main function is to bring buyer and seller together. They may act as an agent for either the buyer or the seller. Import and export brokers generally specialize in particular products or classes of products, often staple primary commodities. If a broker is contacted by, for example, an exporter who has a commodity he wishes to sell the broker will contact potential foreign buyers and offer them the commodity at a predetermined price or ask them to make an offer. Having received several offers, he accepts the best one on the seller's behalf, or relays them to the seller to determine whether the offers are acceptable. When the transaction is concluded the seller pays the broker his fee."

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5. Intermerchant

Agents of this type are limited in number, but can be very useful in so called "switch" or "triangular" trading. In such a situation, a United States exporter, or an exporter from another "hard" currency country, may desire to fill an order from an importer in a "soft" currency country. Because of the difficulty of arranging payment in dollars--that is because the foreign importer has difficulty in obtaining dollars to pay for his purchase--the services of the intermerchant are obtained to set up another side to the transaction in order that it may take place. The intermerchant must be very familiar with the trading and currency conditions in many countries in order to practice his specialized business. In many cases a sale to a soft currency country may not be possible without a triangular transaction and the help of an intermerchant in arranging it.

6. Export Commission House

This type of export buying agent is a representative of foreign buyers residing in the exporter's own country. He differs from the resident buyer, previously mentioned, in that the resident buyer is a permanent representative of the foreign buyer, while the export commission house agent usually is not. The export commission house agent operates on the basis of "indents," that is offers to purchase under conditions stated by the prospective purchaser that he has received from these purchasers. The purchaser then pays the agent a fee for his service. When an export commission house is used, the exporting producer is not directly involved in determining the terms of the transaction. Instead, these are worked out between the foreign buyer and the export commission house.

7. Confirming House

Such agents are not common in the United States, but do exist in a number of other countries. The confirming house puts its credit between the buyer in the importing nation and the exporter or producer in the exporting nation. A confirming house is most useful in markets where credit conditions are uncertain or where the cost of money is very high. In such situations credit risks are complicated, and credit can only be extended by experts with long experience in that market. This is the role of the confirming house. It may also represent purchasers in importing countries who wish to have a financial representative in the exporting country. The confirming house becomes a financial intermediary.

8. Combination Export Manager

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A combination export manager is an international sales specialist who functions as the export department for several related but noncompeting manufacturers. Although a combination export manager is an independent middleman, as far as potential foreign buyers are concerned he is the export manager of the manufacturing firm. All contracts are negotiated in the name of the manufacturer, and all quotations and orders are subject to approval by the manufacturer.

If a producer is interested in exporting without undertaking the effort or expense involved in setting up his own export department, a combination export manager will take over most of the responsibility for his operation. He will help select foreign agents, distributors or dealers; direct foreign promotional activities, including advertising; take care of all billing, financing and shipping details; and perform all the other functions of an export department for a fee or a commission based on the particular arrangement with that producer. Other advantages of combination export managers are: his specialization and experience in distributing abroad; credit assistance; possible savings on shipping because he can consolidate shipments; and the valuable liaison services which he can provide.

APPENDIX A

REVISED AMERICAN FOREIGN TRADE DEFINITIONS - 1941*

*Adopted July 30, 1941, by a joint committee representing the Chamber of Commerce of the United States of America, the National Council of American Importers, Inc., and the National Foreign Trade Council, Inc. There have been no further revisions so the provisions remain in effect.

I. INTRODUCTION

The following Revised American Foreign Trade Definitions - 1941 are recommended for general use by both exporters and importers. These revised definitions have no status at law unless there is specific legislation providing for them, or unless they are confirmed by court decisions. Hence, it is suggested that sellers and buyers agree to their acceptance as part of the contract of sale. These revised definitions will then become legally binding upon all parties.

Widespread acceptance of these revised definitions will lead to a greater standardization of foreign trade procedure, and to the avoidance of much misunderstanding. Adoption by exporters and importers of these terms will impress on all parties concerned their respective responsibilities and rights.

II. GENERAL NOTES OF CAUTION

A. As foreign trade definitions have been issued by organizations in various parts of the world, and as the courts of countries have interpreted these definitions in different ways, it is important that sellers and buyers agree that their contracts are subject to the Revised American Foreign Trade Definitions - 1941 and that the various points listed are accepted by both parties.

B. In addition to the foreign trade terms listed herein, there are terms that are at times used, such as Free Harbor, C.I.F. & C. (Cost, Insurance, Freight, and Commission), C.I.F.C. & I. (Cost, Insurance, Freight, Commission, and Interest), C.I.F. Landed (Cost, Insurance, Freight, Landed), and others. None of these should be used unless there has first been a definite understanding as to the exact meaning thereof. It is unwise to attempt to interpret other terms in the light of the terms given herein. Hence, whenever possible, one of the terms defined herein should be used.

C. It is unwise to use abbreviations in quotations or in contracts which might be subject to misunderstanding.

D. When making quotations, the familiar terms "hundredweight" or "ton" should be avoided. A hundredweight can be 100 pounds of the short ton, or 112 pounds of the long ton. A ton can be a short ton of 2,000 pounds, or a metric ton of 2,204.6 pounds, or a long ton of 2,240 pounds. Hence, the type of hundredweight or ton should be stated in quotations and in sales confirmations. Also, all terms referring to quantity, weight, volume, length, or surface should be clearly defined and agreed upon.

E. If inspection, or certificate of inspection, is required, it should be agreed, in advance, whether the cost thereof is for account of seller or buyer.

F. Unless otherwise agreed upon, all expenses are for the account of seller up to the point at which the buyer must handle the subsequent movement of goods.

G. There is a number of elements in a contract that does not fall within the scope of these foreign trade definitions. Hence, no mention of these is made herein. Seller and buyer should agree to these separately when negotiating contracts. This particularly applies to so-called "customary" practices.

III. DEFINITIONS OF QUOTATIONS

A. EX (Point of Origin)

"Ex Factory", "Ex Mill", "Ex Mine", "Ex Plantation", "Ex Warehouse", etc. (named point of origin). Under this term, the price quoted applies only at the point of origin, and the seller agrees to place the goods at the disposal of the buyer at the agreed place on the date or within the period fixed.

1. Seller must

a. bear all costs and risks of the goods until such time as the buyer is obliged to take delivery thereof;

b. render the buyer, at the buyer's request and expense assistance in obtaining the documents issued in the country of origin, or origin of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

2. Buyer must

a. take delivery of the goods as soon as they have been placed at his disposal at the agreed place on the date or within the period fixed;

b. pay export taxes, or other fees or charges, if any, levied because of exportation;

c. bear all costs and risks of the goods from the time when he is obliged to take delivery thereof;

d. pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

B. F.O.B. (Free on Board)

1. Seller and buyer should consider not only the definition but also the "Comments on All F.O.B. Terms" (see B8 below) given at end of this section in order to understand fully their respective responsibilities and rights under the several classes of "F.O.B." terms.

2. "F.O.B. (Named Inland Carrier at Named Inland Point of Departure)"

Under this term, the price quoted applies only at inland shipping point, and the seller arranges for loading of the goods on, or in, railway cars, trucks, lighters, barges, aircraft, or other conveyance furnished for transportation.

a. Seller must

(1) place goods on, or in, conveyance, or deliver to inland carrier for loading;

(2) provide clean bill of lading or other transportation receipt, freight collect;

(3) be responsible for any loss or damage, or both, until goods have been placed in, or on, conveyance at loading point, and clean bill of lading or other transportation receipt has been furnished by the carrier;

(4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

b. Buyer must

(1) be responsible for all movement of the goods;

from inland point of loading, and pay all transportation costs ;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) be responsible for any loss or damage, or both, incurred after loading at named inland point of departure;

(4) pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

3. "F.O.B. (Named Inland Carrier at Named Inland Point of Departure) Freight Prepaid to (Named Point of Exportation)"

Under this term, the seller quotes a price including transportation charges to the named point of exportation and prepays freight to named point of exportation without assuming responsibility for the goods after obtaining a clean bill of lading or other transportation receipt at named inland point of departure.

a. Seller must

(1) assume the seller's obligations as under B.2a. (above) except that under B.2a.(2) seller must

provide clean bill of lading or other transportation receipt, freight prepaid to named point of exportation.

b. Buyer must

(1) assume the same buyer's obligations as under B.2b. (above) except that he does not pay freight from loading point to named point of exportation.

4. "F.O.B. (Named Inland Carrier at Named Inland Point of Departure) Freight Allowed to (Named Point)"

Under this term, the seller quotes a price including the transportation charges to the named point, shipping freight collect and deducting the cost of transportation, without assuming responsibility for the goods after obtaining a clean bill of lading or other transportation receipt at named inland point of departure.

a. Seller must

(1) assume the same seller's obligations as under B.2a. (above) but deducts from his invoice the transportation cost to named point.

b. Buyer must

(1) assume the same buyer's obligations as under

B.2b. (above) including payment of freight from inland loading point to named point, for which seller has made deduction.

5. <u>"F.O.B. (Named Inland Carrier at Named Point of Exportation)"</u>

Under this term, the seller quotes a price including the costs of transportation of the goods to named point of exportation, bearing any loss or damage, or both, incurred up to that point.

a. <u>Seller must</u>

(1) place goods on, or in, conveyance, or deliver to inland carrier for loading;

(2) provide clean bill of lading or other transportation receipt, paying all transportation costs from loading point to named point of exportation ;

(3) be responsible for any loss or damage, or both, until goods have arrived in, or on, inland conveyance at the named point of exportation;

(4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or both, which the buyer may require either for purposes of exportation, or of importation at destination.

b. Buyer must

(1) be responsible for all movement of the goods from inland conveyance at named point of exportation;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) be responsible for any loss or damage, or both, incurred after goods have arrived in, or on, inland conveyance at the named point of exportation;

(4) pay all costs and charges incurred in obtaining the documents issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

6. "F.O.B. Vessel (Named Port of Shipment)"

Under this term, the seller quotes a price covering all expenses up to, and including, delivery of the goods upon the overseas vessel provided by, or for, the buyer at the named port of shipment.

a. Seller must

(1) pay all charges incurred in placing goods actually on board the vessel designated and provided by,

or for, the buyer on the date or within the period fixed;

(2) provide clean ship's receipt or on-board bill of lading;

(3) be responsible for any loss or damage, or both, until goods have been placed on board the vessel on the date or within the period fixed;

(4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

b. <u>Buyer must</u>

(1) give seller adequate notice of name, sailing date, loading berth of, and delivery time to, the vessel;

(2) bear the additional costs incurred and all risks of the goods from the time when the seller has placed them at his disposal if the vessel named by him fails to arrive or to load within the designated time;

(3) handle all subsequent movement of the goods to destination;

(a) provide and pay for insurance

(b) provide and pay for ocean and other transportation

(4) pay export taxes, or other fees or charges, if any, levied because of exportation;

(5) be responsible for any loss or damage, or both, after goods have been loaded on board the vessel;

(6) pay all costs and charges incurred in obtaining the documents, other than clean ship's receipt or bill of lading, issued in the country of origin, or of shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

7. "F.O.B. (Named Inland Point in Country of Importation)"

Under this term, the seller quotes a price including the cost of the merchandise and all costs of transportation to the named inland point in the country of importation.

a. Seller must

(1) provide and pay for all transportation to the named inland point in the country of importation;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) provide and pay for marine insurance;

(4) provide and pay for war risk insurance, unless otherwise agreed upon between the seller and buyer;

(5) be responsible for any loss or damage, or both, until arrival of goods on conveyance at the named inland point in the country of importation;

(6) pay the costs of certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for the importation of goods into the country of destination and, where necessary, for their passage in transit through another country;

(7) pay all costs of landing, including wharfage, landing charges, and taxes, if any;

(8) pay all costs of customs entry in the country of importation;

(9) pay customs duties and all taxes applicable to to imports, if any, in the country of importation;

(10) realize that he is accepting important responsibilities, costs, and risks, and should therefore be certain to obtain adequate insurance. On the other hand, the importer or buyer may desire such quotations to relieve him of the risks of the voyage and to assure him of his landed costs at inland point in country of importation. When competition is keen, or the buyer is accustomed to such quotations from other sellers, seller may quote such terms, being careful to protect himself in an appropriate manner.

b. Buyer must

(1) take prompt delivery of goods from conveyance upon arrival at destination;

(2) bear any costs and be responsible for all loss or damage, or both, after arrival at destination.

8. Comments on All F.O.B. Terms

In connection with F.O.B. terms, the following points of caution are recommended:

a. The method of inland transportation, such as trucks, railroad cars, lighters, barges, or aircraft should be specified.

b. If any switching charges are involved during the inland transportation, it should be agreed, in advance, whether these charges are for account of the seller or the buyer.

c. The term "F.O.B. (named port", without designating the exact point at which the liability of the seller terminates and the liability of the buyer begins, should be avoided. The use of this term gives rise to disputes as to the liability of the seller or the buyer in the event of loss or damage arising while the goods are in port, and before delivery to or on board the ocean carrier. Misunderstandings may be avoided by naming the specific point of delivery.

d. If lighterage or trucking is required in the transfer of goods from the inland conveyance to ship's side, and there is a cost therefor, it should be understood, in advance, whether this cost is for account of the seller or the buyer.

e. The seller should be certain to notify the buyer of the minimum quantity required to obtain a carload, a truckload, or a barge-load freight rate.

f. Under F.O.B. terms, excepting "F.O.B. (named inland point in country of importation)", the obligation to obtain ocean freight space, and marine and war risk insurance, rests with the buyer. Despite this obligation on the part of the buyer, in many trades the seller obtains the ocean freight space, and marine and war risk insurance, and provides for shipment on behalf of the buyer. Hence, seller and buyer must have an understanding as to whether the buyer will obtain the ocean freight space, and marine and war risk insurance, as is his obligation, or whether the seller agrees to do this for the buyer.

8. For the seller's protection, he should provide in his contract of sale that marine insurance obtained by the buyer include standard warehouse to warehouse coverage.

C. F.A.S. (Free Along Side)

1. Seller and buyer should consider not only the definitions but also the "Comments" given at the end of this section (C.3 below), in order to understand fully their respective responsibilities and rights under "F.A.S." terms.

2. "F.A.S. Vessel (Named Port of Shipment)

Under this term, the seller quotes a price including delivery of the goods along side overseas vessel and within reach of its loading tackle.

a. Seller must

(1) place goods along side vessel or on dock designated and provided by, or for, buyer on the date or within the period fixed; pay any heavy lift charges, where necessary, up to this point;

(2) provide clean dock or ship's receipt;

(3) be responsible for any loss or damage, or both,

until goods have been delivered along side the vessel or on the dock;

(4) render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin, or of shipment, or of both, which the buyer may require either for purposes of exportation, or of importation at destination.

b. <u>Buyer must</u>

(1) give seller adequate notice of name, sailing date, loading berth of, and delivery time to, the vessel;

(2) handle all subsequent movement of the goods from along side the vessel;

(a) arrange and pay for demurrage or storage charges, or both, in warehouse or on wharf, where necessary

(b) provide and pay for insurance

(c) provide and pay for ocean and other transportation

(3) pay export taxes, or other fees or charges, if any, levied because of exportation;

(4) be responsible for any loss or damage, or both, while the goods are on a lighter or other conveyance along side vessel within reach of its

loading tackle, or on the dock awaiting loading or until actually loaded on board the vessel, and subsequent thereto;

(5) pay all costs and charges incurred in obtaining the documents, other than clean dock or ship's receipt, issued in the country of origin, or of the shipment, or of both, which may be required either for purposes of exportation, or of importation at destination.

3. F.A.S. Comments

a. Under F.A.S. terms, the obligation to obtain ocean freight space, and marine and war risk insurance, rests with the buyer. Despite this obligation on the part of the buyer, in many trades the seller obtains ocean freight space, and marine and war risk insurance, and provides for shipment on behalf of the buyer. In others, the buyer notifies the seller to make delivery along side a vessel designated by the buyer and the buyer provides his own marine and war risk insurance. Hence, seller and buyer must have an understanding as to whether the buyer will obtain the ocean freight space, and marine and war risk insurance, as is his obligation or whether the seller agrees to do this for the buyer.

b. For the seller's protection, he should provide in his contract of sale that marine insurance obtained by the buyer include standard warehouse to warehouse coverage.

D. C. & F. (Cost and Freight)

1. Seller and buyer should consider not only the definitions but also the "C. & F. Comments" (See D.3 below) and the "C. & F. and C.I.F. Comments" (See E.3 below), in order to understand fully their respective responsibilities and rights under "C. & F." terms.

2. "C. & F. (Named Point of Destination)"

Under this term, the seller quotes a price including the cost of transportation to the named point of destination.

a. Seller must

(1) provide and pay for transportation to named point of destination;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) obtain and dispatch promptly to buyer, or his agent, clean bill of lading to named point of destination;

(4) where received-for-shipment ocean bill of lading may be tendered, be responsible for any loss or damage, or both, until the goods have been delivered into the custody of the ocean carrier;

(5) where on-board ocean bill of lading is required, be responsible for any loss or damage, or both, until the goods have been delivered on board the vessel;

(6) provide, at the buyer's request and expense, certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for importation of goods into country of destination and, where necessary, for their passage in transit through another country.

b. Buyer must

(1) accept the documents when presented;

(2) receive goods upon arrival, handle and pay for all subsequent movement of the goods, including taking delivery from vessel in accordance with bill of lading clauses and terms; pay all costs of landing, including any duties, taxes, and other expenses at named point of destination;

(3) provide and pay for insurance;

(4) be responsible for loss of or damage to goods, or both, from time and place at which seller's obligations under (4) or (5) above have ceased;

(5) pay the cost of certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or of both, which may be required for the importation of goods into the country of destination and, where necessary, for their passage in transit through another country.

3. C. & F. Comments

a. For the seller's protection, he should provide in his contract of sale that marine insurance obtained by the buyer include standard warehouse to warehouse coverage.

b. The comments listed under the following C.I.F. terms in many cases apply to C. & F. terms as well, and should be read and understood by the C. & F. seller and buyer.

E. C.I.F. (Cost, Insurance, Freight)

1. Seller and buyer should consider not only the definitions but also the "C. & F. and C.I.F. Comments" (See

E.3 below), at the end of this section, in order to understand fully their respective responsibilities and rights "C.I.F." terms.

2. "C.I.F. (Named Point of Destination)"

Under this term, the seller quotes a price including the cost of the goods, the marine insurance, and all transportation charges to the named point of destination.

a. Seller must

(1) provide and pay for transportation to named point of destination;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) provide and pay for marine insurance;

(4) provide war risk insurance as obtainable in seller's market at time of shipment at buyer's expense, unless seller has agreed that buyer provide for war risk coverage (See j.3 below);

(5) obtain and dispatch promptly to buyer, or his agent, clean bill of lading to named point of destination, and also insurance policy or negotiable insurance certificate;

(6) where received-for-shipment ocean bill of lading may be tendered, be responsible for any

loss or damage, or both, until the goods have been delivered into the custody of the ocean carrier;

(7) where on-board ocean bill of lading is required, be responsible for any loss or damage, or both, until the goods have been delivered on board the vessel;

(8) provide, at the buyer's request and expense, certificates of origin, consular invoices, or any other documents issued in the country of origin, or of shipment, or both, which the buyer may require for importation of goods into country of destination and, where necessary, for their passage in transit through another country.

b. Buyer must

(1) accept the documents when presented;

(2) receive the goods upon arrival, handle and pay for all subsequent movement of the goods, including taking delivery from vessel in accordance with bill of lading clauses and terms; pay all costs of landing, including any duties, taxes, and other expenses at named point of destination;

(3) pay for war risk insurance provided by seller;

(4) be responsible for loss of or damage to goods, or both, from time and place at which seller's

obligations under E.2b.(6) or E.2b.(7) (above) have ceased;

(5) pay the cost of certificates of origin, consular invoices or any other documents issued in the country of origin, or of shipment, or both, which may be required for importation of the goods into the country of destination and, where necessary, for their passage in transit through another country.

3. C. & F. and C.I.F. Comments

Under C. & F. and C.I.F. contracts there are the following points on which the seller and the buyer should be in complete agreement at the time that the contract is concluded:

a. It should be agreed upon, in advance, who is to pay for miscellaneous expenses, such as weighing or inspection charges.

b. The quantity to be shipped on any one vessel should be agreed upon, in advance, with a view to the buyer's capacity to take delivery upon arrival and discharge of the vessel; within the free time allowed at the port of importation.

c. Although the terms C. & F. and C.I.F. are generally interpreted to provide that charges for consular invoices and certificates of origin are for for the account of the buyer, and are charged separately, in many trades these charges are included by the seller in his price. Hence, seller and buyer should agree, in advance, whether these charges are part of the selling price, or will be invoiced separately.

d. The point of final destination should be definitely known in the event the vessel discharges at a port other than the actual destination of the goods.

e. When ocean freight space is difficult to obtain, or forward freight contracts cannot be made at firm rates, it is advisable that sales contracts, as an exception to regular C. & F. or C.I.F. terms, should provide that shipment within the contract period be subject to ocean freight space being available to the seller, and should also provide that changes in the cost of ocean transportation between the time of sale and the time of shipment be for account of the buyer.

f. Normally, the seller is obligated to prepay the ocean freight. In some instances, shipments are made

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freight collect and the amount of the freight is deducted from the invoice rendered by the seller. It is necessary to be in agreement on this, in advance, in order to avoid misunderstanding which arises from foreign exchange fluctuations which might affect the actual cost of transportation, and from interest charges which might accrue under letter of credit financing. Hence, the seller should always prepay the ocean freight unless he has a specific agreement with the buyer, in advance, that goods can be shipped freight collect.

g. The buyer should recognize that he does not have the right to insist on inspection of goods prior to accepting the documents. The buyer should not refuse to take delivery of goods on account of delay in the receipt of documents, provided the seller has used due diligence in their dispatch through the regular channels.

h. Sellers and buyers are advised against including in a C.I.F. contract any indefinite clause at variance with the obligations of a C.I.F. contract as specified in these Definitions. There have been numerous court decisions in the United States and other countries invalidating C.I.F. contracts because of the inclusion of indefinite clauses.

i. Interest charges should be included in cost computations and should not be charged as a separate item in C.I.F. contracts, unless otherwise agreed upon, in advance, between the seller and buyer; in which case, however, the terms C.I.F. and I (Cost, Insurance, Freight, and Interest) should be used.

j. In connection with insurance under C.I.F. sales, it is necessary that seller and buyer be definitely in accord upon the following points:

(1) The character of the marine insurance should be agreed upon in so far as being W.A. (With Average) or F.P.A. (Free of Particular Average), as well as any other special risks that are covered in specific trades, or against which the buyer may wish individual protection. Among the special risks that should be considered and agreed upon between seller and buyer are theft, pilferage, leakage, breakage, sweat, contact with other cargoes, and others peculiar to any particular trade. It is important that contingent or collect freight and customs duty should be insured to cover Particular Average losses, as well as total loss after arrival and entry or before delivery.

(2) The seller is obligated to exercise ordinary care and diligence in selecting an underwriter that is in good financial standing. However, the risk of obtaining settlement of insurance claims rests with the buyer.

(3) War risk insurance under this term is to be obtained by the seller at the expense and risk of the buyer. It is important that the seller be in definite accord with the buyer on this point, particularly as to the cost. It is desirable that the goods be insured against both marine and war risk with the same underwriter, so that there can be no difficulty arising from the determination of the cause of the loss.

(4) Seller should make certain that in his marine or war risk insurance, there be included the standard protection against strikes, riots and civil commotions.

(5) Seller and buyer should be in accord as to the insured valuation, bearing in mind that merchandise contributes in General Average on certain bases of valuation which differ in various trades. It is desirable that a competent

insurance broker be consulted, in order that full value be covered and trouble avoided.

F. Ex Dock

1. Seller and buyer should consider not only the definitions but also the "Ex Dock Comments" at the end of this section (See F.3 below), in order to understand fully their respective responsibilities and rights under "Ex Dock" terms.

2. "Ex Dock (Named Port of Importation)"

Under this term, seller quotes a price including the cost of the goods and all additional costs necessary to place the goods on the dock at the named port of importation, duty paid, if any.

a. Seller must

(1) provide and pay for transportation to named port of importation;

(2) pay export taxes, or other fees or charges, if any, levied because of exportation;

(3) provide and pay for marine insurance;

(4) provide and pay for war risk insurance, unless otherwise agreed upon between the buyer and seller;

(5) be responsible for any loss or damage, or both, until the expiration of the free time allowed on the dock at the named port of importation;

(6) pay the costs of certificates of origin, consular invoices, legalization of bill of lading, or any other documents issued in the country of origin, or of shipment, or of both, which the buyer may require for the importation of goods into the country of destination and, where necessary, for their passage in transit through another country;

(7) pay all costs of landing, including wharfage, landing charges, and taxes, if any;

(8) pay all costs of customs entry in the country of importation;

(9) pay customs duties and all taxes applicable to imports, if any, in the country of importation, unless otherwise agreed upon.

b. Buyer must

(1) take delivery of the goods on the dock at the named port of importation within the free time allowed;

(2) bear the cost and risk of the goods if delivery is not taken within the free time allowed.

3. Ex Dock Comments

This term is used principally in United States import trade. It has various modifications, such as "Ex Quay", "Ex Pier", etc., but it is seldom, if ever, used in American export practice. Its use in quotations for export is not recommended.

UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1962 REVISION--INTERNATIONAL CHAMBER OF COMMERCE BROCHURE NO. 222)

Adherence of the United States banks, which have subscribed to these regulations, is effective July 1, 1963.

GENERAL PROVISIONS AND DEFINITIONS

a. These provisions and definitions and the following articles apply to all documentary credits and are binding upon all parties thereto unless otherwise expressly agreed.

b. For the purposes of such provisions, definitions and articles the expressions "documentary credit(s)" and "credit(s)" used therein mean any arrangement, however, named or described, whereby a bank (the issuing bank), acting at the request and in accordance with the instructions of a customer (the applicant for the credit), is to make payment to or to the order of a third party (the beneficiary) or is to pay, accept or negotiate bills of exchange (drafts) drawn by the beneficiary, or authorizes such payments to be made or such drafts to be paid, accepted or negotiated by another bank, against stipulated documents and compliance with stipulated terms and conditions.

c. Credits, by their nature, are separate transactions from the sales or other contracts on which they may be based and banks are in no way concerned with or bound by such contracts.

d. Credit instructions and the credits themselves must be be complete and precise and, in order to guard against confusion and misunderstanding, issuing banks should discourage any attempt by the applicant for the credit to include excessive detail.

e. When the bank first entitled to avail itself of an option it enjoys under the following articles does so, its decision shall be binding upon all the parties concerned.

f. A beneficiary can in no case avail himself of the contractual relationships existing between banks or between the applicant for the credit and the issuing bank.

A. FORM AND NOTIFICATION OF CREDITS

Article 1. Credits may be either

(a) revocable, or

(b) irrevocable.

All credits, therefore, should clearly indicate whether they are revocable or irrevocable.

In the absence of such indication the credit shall be deemed to be revocable, even though an expiry date is stipulated.

Article 2. A revocable credit does not constitute a legally binding undertaking between the bank or banks concerned and the beneficiary because such a credit may be modified or cancelled at any moment without notice to the beneficiary.

When, however, a revocable credit has been transmitted to and made available at a branch or other bank, its modification or cancellation shall become effective only upon receipt of notice thereof by such branch or other bank and shall not affect the right of that branch or other bank to be reimbursed for any payment, acceptance or negotiation made by it prior to receipt of such notice.

<u>Article 3</u>. An irrevocable credit is a definite undertaking on the part of an issuing bank and constitutes the engagement of that bank to the beneficiary or, as the case may be, to the beneficiary and bona fide holders of drafts drawn and/or documents presented thereunder, that the provisions for payment, acceptance or negotiation contained in the credit will be duly fulfilled provided that all the terms and conditions of the credit are complied with.

An irrevocable credit may be advised to a beneficiary through another bank without engagement on the part of that other bank (the advising bank), but when an issuing bank authorizes another bank to confirm its irrevocable credit and the latter does so, such confirmation constitutes a definite undertaking on the part of the confirming bank either that the provisions for payment or acceptance will be duly fulfilled or, in the case of a credit available by negotiation of drafts, that the confirming bank will negotiate drafts without recourse to drawer.

Such undertakings can neither be modified nor cancelled without the agreement of all concerned.

Article 4. When an issuing bank instructs a bank by cable, telegram or telex to notify a credit and the original letter of credit itself is to be the operative credit instrument, the issuing bank must send the original letter of credit, and any subsequent amendments thereto, to the beneficiary through the notifying bank.

The issuing bank will be responsible for any consequences arising from its failure to follow this procedure.

Article 5. When a bank is instructed by cable, telegram or telex to issue, confirm or advise a credit similar in terms to one previously established and which has been the subject of amendments, it shall be understood that the details of the credit being issued, confirmed or advised will be transmitted to the beneficiary excluding the amendments, unless the instructions specify clearly any amendments which are to apply.

Article 6. If incomplete or unclear instructions are received to issue, confirm or advise a credit, the bank requested to act on such instructions may give preliminary notification of the credit to the beneficiary for information only and without responsibility; and in that case the credit will be issued, confirmed or advised only when the necessary information has been received.

B. LIABILITIES AND RESPONSIBILITIES

__Article 7.__ Banks must examine all documents with reasonable care to ascertain that they appear on their face to be in accordance with the terms and conditions of the credit.

__Article 8.__ In documentary credit operations all parties concerned deal in documents and not in goods.

Payment, acceptance or negotiation against documents which appear on their face to be in accordance with the terms and conditions of a credit by a bank authorized to do so, binds the party giving the authorization to take up the documents and reimburse the bank which has effected the payment, acceptance or negotiation.

If, upon receipt of the documents, the issuing bank considers that they appear on their face not to be in accordance with the terms and conditions of the credit, that bank must determine, on the basis of the documents alone, whether to claim that payment, acceptance or negotiation was not effected in accordance with the terms and conditions of the credit.

If such claim is to be made, notice to that effect, stating the reasons therefor, must be given by cable or other expeditious means to the bank from which the documents have been received and such notice must state that the documents are being held at the disposal of such bank or are being returned thereto. The issuing bank shall have a reasonable time to examine the documents.

Article 9. Banks assume no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification or legal effect of any documents, or for the general and/or particular conditions stipulated in the documents or superimposed thereon; nor do they assume any liability or responsibility for the description, quantity, weight, quality, condition, packing, delivery, value or existence of the goods represented thereby, or for the good faith or acts and/or omissions, solvency, performance or standing of the consignor, the carriers or the insurers of the goods or any other person whomsoever.

Article 10. Banks assume no liability or responsibility for the consequences arising out of delay and/or loss in transit of any messages, letters or documents, or for delay, mutilation or other errors arising in the transmission of cables, telegrams or telex, or for errors in translation or interpretation of technical terms, and banks reserve the right to transmit credit terms without translating them.

<u>Article 11</u>. Banks assume no liability or responsibility for consequences arising out of the interruption of their business by strikes, lockouts, riots, civil commotions, insurrections, wars, Acts of God or any other causes beyond their control. Unless specifically authorized, banks will not effect payment, acceptance or negotiation after expiration under credits expiring during such interruption of business.

<u>Article 12</u>. Banks utilizing the services of another bank for the purpose of giving effect to the instructions of the applicant for the credit do so for the account and at the risk of the latter.

They assume no liability or responsibility should the instructions they transmit not be carried out, even if they have themselves taken the initiative in the choice of such other bank.

The applicant for the credit shall be bound by and liable to indemnify the banks against all obligations and responsibilities imposed by foreign laws and usages.

Article 13. All instructions to issue, confirm or advise a credit must state precisely the documents against which payment, acceptance or negotiation is to be made.

Terms such as "first class", "well known", "qualified" and the like shall not be used to describe the issuers of any documents called for under credits and if they are incorporated in the credit terms banks will accept documents as presented without further responsibility on their part.

Documents evidencing Shipment or Despatch (Shipping Documents)

Article 14. Except as stated in Article 18, the date of the Bill of Lading, or date indicated in the reception stamp or by notation on any other document evidencing shipment or despatch, will be taken in each case to be the date of shipment or despatch of the goods.

Article 15. If the words "freight paid" or "freight prepaid" appear by stamp or otherwise on documents evidencing shipment or despatch they will be accepted as constituting evidence of the payment of freight.

If the words "freight prepayable" or "freight to be prepaid" or words of similar effect appear by stamp or otherwise on such documents they will not be accepted as constituting evidence of the payment of freight.

Unless otherwise specified in the credit or inconsistent with any of the documents presented under the credit, banks may honour documents stating that freight or transportation charges are payable on delivery.

Article 16. A clean shipping document is one which bears no notations unless the credit expressly states clauses or notations which may be accepted.

Marine Bills of Lading

Article 17. Unless specifically authorized in the credit, Bills of Lading of the following nature will be rejected:

(a) Bills of Lading issued by forwarding agents.

(b) Bills of Lading which are issued under and are subject to the conditions of a Charter-Party.

(c) Bills of Lading covering shipment by sailing vessels.

However, unless otherwise specified in the credit, Bills of Lading of the following nature will be accepted:

(a) "Port" or "Custody" Bills of Lading for shipments of cotton from the United States of America

(b) "Through" Bill of Lading issued by steamship companies or their agents even though they cover several modes of transport.

Article 18. Unless otherwise specified in the credit, Bills of Lading must show that the goods are loaded on board.

Loading on board may be evidenced by an on board Bill of Lading or by means of a notation to that effect dated and signed or initialled by the carrier or his agent, and the date of this notation shall be regarded as the date of loading on board and shipment.

Article 19. Unless transhipment is prohibited by the terms of the credit, Bills of Lading will be accepted which indicate that the goods will be transhipped enroute, provided the entire voyage is covered by one and the same Bill of Lading.

Bills of Lading incorporating printed clauses stating that the carriers have the right to tranship will be accepted notwithstanding the fact that the credit prohibits transhipment.

Article 20. Banks will refuse a Bill of Lading showing the stowage of goods on deck, unless specifically authorized in the credit.

Article 21. Banks may require the name of the beneficiary to appear on the Bill of Lading as shipper or endorser, unless the terms of the credit provide otherwise.

Other Shipping Documents, etc.

Article 22. Banks will consider a Railway or Inland Waterway Bill of Lading or Consignment Note, Counterfoil Waybill, Postal Receipt, Certificate of Mailing, Air Mail Receipt, Air Transportation Waybill, Air Consignment Note or Air Receipt, Trucking Company Bill of Lading or any other similar document as regular when such document bears the reception stamp of the carrier or issuer, or when it bears a signature.

Article 23. When a credit calls for an attestation or certification of weight in the case of transport other than by sea, banks will accept a weight stamp or any other offical indication of weight on the shipping documents unless the credit calls for a separate or independent certificate of weight.

Insurance Documents

Article 24. Insurance documents must be as specifically described in the credit, and must be issued and/or signed by insurance companies or their agents or by underwriters.

Cover notes issued by brokers will not be accepted, unless specifically authorized in the credit.

Article 25. Unless otherwise specified in the credit, banks may refuse any insurance documents presented if they bear a date later than the date of shipment as evidenced by the shipping documents.

Article 26. Unless otherwise specified in the credit, the insurance document must be expressed in the same currency as the credit.

The minimum amount for which insurance must be effected is the CIF value of the goods concerned. However, when the CIF value of the goods cannot be determined from the documents on their face, banks will accept as such minimum amount the amount of the drawing under the credit or the amount of the relative commercial invoice, whichever is the greater.

Article 27. Credits must expressly state the type of insurance required and, if any, the additional risks which are to be covered. Imprecise terms such as "usual risks" or "customary risks" shall not be used.

Failing specific instructions, banks will accept insurance cover as tendered.

Article 28. When a credit stipulates "insurance against all risks", banks will accept an insurance document which contains any "all risks" notation or clause, and will assume no responsibility if any particular risk is not covered.

Article 29. Banks may accept an insurance document which indicates that the cover is subject to a franchise, unless it is specifically stated in the credit that the insurance must be issued irrespective of percentage.

Commercial Invoices

Article 30. Unless otherwise specified in the credit, commercial invoices must be made out in the name of the applicant for the credit.

Unless otherwise specified in the credit, banks may refuse invoices issued for amounts in excess of the amount permitted by the credit.

The description of the goods in the commercial invoice must correspond with the description in the credit. In the remaining documents the goods may be described in general terms.

Other Documents

Article 31. When other documents are required, such as Warehouse Receipts, Delivery Orders, Consular Invoices, Certificates of Origin, of Weight, of Quality, or of Analysis, etc., without further definition, banks may accept such documents as tendered, without responsibility on their part.

D. MISCELLANEOUS PROVISIONS

Quantity and Amount

Article 32. The words "about", "circa" or similar expressions are to be construed as allowing a difference not to exceed 10% more or 10% less, applicable, according to their place in the instructions, to the amount of the credit or to the quantity or unit price of the goods.

Unless a credit stipulates that the quantity of the goods specified must not be exceeded or reduced, a tolerance of 3% more or 3% less will be permissible, always provided that the total amount of the drawings does not exceed the amount of the credit. This tolerance does not apply when the credit specified quantity in terms of packing units or containers of individual items.

Partial Shipments

Article 33. Partial shipments are allowed, unless the credit specifically states otherwise.

Shipments made on the same ship and for the same voyage, even if the Bills of Lading evidencing shipment "on board" bear different dates, will not be regarded as partial shipments.

Article 34. If shipment by instalments within given periods is stipulated and any instalment is not shipped within the period allowed for that instalment, the credit ceases to be available for that or any subsequent instalment, unless otherwise specified in the credit.

Validity and Expiry Date

Article 35. All irrevocable credits must stipulate an expiry date for presentation of documents for payment, acceptance or negotiation, notwithstanding the indication of a latest date for shipment.

Article 36. The words "to", "until", "till" and words of similar import applying to the expiry date for presentation of documents for payment, acceptance or negotiation, or to the stipulated latest date for shipment, will be understood to include the date mentioned.

Article 37. When the stipulated expiry date falls on a day on which banks are closed for reasons other than those mentioned in Article 11, the period of validity will be extended until the first following business day.

This does not apply to the date for shipment which, if stipulated, must be respected.

Banks paying, accepting or negotiating on such extended expiry date must add to the documents their certification in the following wording:

"Presented for payment (or acceptance or negotiation as the case may be) within the expiry date extended in accordance with Article 37 of the Uniform Customs."

<u>Article 38.</u> The validity of a revocable credit, if no date is stipulated, will be considered to have expired six months from the date of the notification sent to the beneficiary by the bank with which the credit is available.

<u>Article 39.</u> Unless otherwise expressly stated, any extension of the stipulated latest date for shipment shall extend for an equal period the validity of the credit.

Where a credit stipulates a latest date for shipment, any extension of the period of validity shall not extend the period permitted for shipment unless otherwise expressly stated.

Shipment, Loading, or Despatch

Article 40. Unless the terms of the credit indicate otherwise, the words "departure", "despatch", "loading" or "sailing" used in stipulating the latest date for shipment of the goods will be understood to be synonymous with "shipment".

Expressions such as "prompt", "immediately", "as soon as possible" and the like should not be used. If they are used, banks will interpret them as a request for shipment within thirty days from the date on the advice of the credit to the beneficiary by the issuing bank or by an advising bank, as the case may be.

Presentation

Article 41. Documents must be presented within a reasonable time after issuance. Paying, accepting or negotiating banks may refuse documents if, in their judgment, they are presented to them with undue delay.

Article 42. Banks are under no obligation to accept presentation of documents outside their banking hours.

Date Terms

Article 43. The terms "first half", "second half" of a month shall be construed respectively as from the 1st to the 15th, and the 16th to the last day of each month, inclusive.

Article 44. The terms "beginning", "middle" or "end" of a month shall be construed respectively as from the 1st to the 10th, the 11th to the 20th, and the 21st to the last day of each month, inclusive.

Article 45. When a bank issuing a credit instructs that the credit be confirmed or advised as available "for one month", "for six months" or the like, but does not specify the date from which the time is to run, the confirming or advising bank will confirm or advise the credit as expiring at the end of such indicated period from the date of its confirmation or advice.

E. TRANSFER

Article 46. A transferable credit is a credit under which the beneficiary has the right to give instructions to the bank called upon to effect payment or acceptance or to any bank entitled to effect negotiation to make the credit available in whole or in part to one or more third parties (second beneficiaries).

A credit can be transferred only if it is expressly designated as "transferable" by the issuing bank. Terms

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such as "divisible", "fractionable", "assignable" and "transmissible" add nothing to the meaning of the term "transferable" and shall not be used.

A transferable credit can be transferred once only. Fractions of a transferable credit (not exceeding in the aggregate the amount of the credit) can be transferred separately, provided partial shipments are not prohibited, and the aggregate of such transfers will be considered as constituting only one transfer of the credit. The credit can be transferred only on the terms and conditions specified in the original credit, with the exception of the amount of the credit, of any unit price stated therein, and of the period of validity or period for shipment, any or all of which may be reduced or curtailed. Additionally, the name of the first beneficiary can be substituted for that of the applicant for the credit, but if the name of the applicant for the credit is specifically required by the original credit to appear in any document other than the invoice, such requirement must be fulfilled.

The first beneficiary has the right to substitute his own invoices for those of the second beneficiary, for amounts not in excess of the original amount stipulated in the credit and for the original unit prices stipulated in the credit, and upon such substitution of invoices the first beneficiary can draw upon the credit for the difference, if any, between his invoices and the second beneficiary's invoices. When a credit has been transferred and the first beneficiary is to supply his own invoices in exchange for the second beneficiary's invoices but fails to do so on demand, the paying, accepting or negotiating bank has the right to deliver to the issuing bank the documents received under the credit, including the second beneficiary's invoices, without further responsibility to the first beneficiary.

The first beneficiary of a transferable credit can transfer the credit to a second beneficiary in the same country, but if he is to be permitted to transfer the credit to a second beneficiary in another country this must be expressly stated in the credit. The first beneficiary shall have the right to request that payment or negotiation be effected to the second beneficiary at the place to which the credit has been transferred, up to and including the expiry date of the original credit, and without prejudice to the first beneficiary's right subsequently to substitute his own invoices for those of the second beneficiary and to claim any difference due to him.

The bank requested to effect the transfer, whether it has confirmed the credit or not, shall be under no obligation to make such transfer except to the extent and in the manner expressly consented to by such bank, and until such bank's charges for transfer are paid.

Bank charges entailed by transfers are payable by the first beneficiary unless otherwise specified.

APPENDIX C

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